



China in the WTO: The Debate

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(Editors' Note: Foreign Policy In Focus has on several previous occasions produced policy briefs or reports supporting granting China permanent normal trading status and WTO membership. Neither of FPIF's sponsoring institutions, IRC and IPS, have taken public positions on these issues, and other projects at IPS have raised questions about the terms of China's entry into WTO. As a project, FPIF does not require that our experts adopt preordained policy positions, only that they articulate policy recommendations that are based on broad concern for global peace, sustainable development, and human rights. We recognize the controversial character of this policy brief, particularly for labor and "fair trade" advocates in the U.S., and we are including an accompanying page that briefly presents some dissenting voices. We solicit comments and critiques, which will be posted on our website.)

The November 15th U.S.-China agreement on the terms for China to join the World Trade Organization (WTO) is the most significant deal between the two countries since diplomatic relations were established more than two decades ago. The Clinton administration hopes this paves the way for Congress to now vote permanent Normal Trade Relations (NTR) (also known as Most Favored Nation), thereby giving China the same trading privileges now enjoyed without annual review by almost every other U.S. trading partner. The only other nations denied NTR status by the U.S. are: Afghanistan, Cambodia, Cuba, Laos, North

Korea, and Yugoslavia. China has enjoyed NTR since 1980, but only by an annual vote of Congress. Only if the U.S. Congress approves permanent NTR for China can the November agreement be implemented. WTO membership for China and permanent NTR status will clear the way for Taiwan to join the WTO. China and Taiwan are the only two major U.S.

Key Points

- WTO membership for China is the most significant advance in relations with the U.S. since diplomatic ties were established two decades ago.
- Creating winners and losers on both sides, the November 15th agreement will benefit both economies, but China has conceded much more than has the United States.
- WTO membership would likely incline China more toward peace and the rule of law, though progress will take time.

trading partners that are not members. When these two join, all significant U.S. trading partners will be governed by the same rules and dispute-resolution procedures.

Joining the WTO will not give China any trading advantage with the U.S. that it does not already enjoy, but China anticipates that securing permanent NTR will remove the political embarrassment of Congress' annual scrutiny of its human rights, labor, and environmental record. More importantly for the U.S., the agreement grants unprecedented access to the Chinese market for both U.S. exports and investments—including in politically sensitive sectors like banking, insurance, and telecommunications—and it will improve the chances for relations to develop peacefully on the basis of mutual interest. In seeking WTO membership for

China, the U.S. government has rejected arguments by many labor, human rights, and environmental groups that this should be tied to commitments by China to improve human rights and environmental standards.

The November 15th U.S.-China agreement is a major step toward Chinese membership in the 135-member WTO. To gain approval from the existing members, China, which has been seeking GATT/WTO membership since 1986, must reach bilateral understandings with its important trading partners. Before securing Washington's approval, China had previously made agreements on the terms for its entry into WTO with a dozen countries, including Japan and Australia. Negotiations continue for settlements with other major Chinese trading partners, most notably the European Union, but no major problems are anticipated in reaching consensus with the other WTO members. Therefore, China's admission to the WTO sometime next year is now likely.

The November 15th agreement imposes much more substantial concessions on China than on the U.S., which merely grants permanently what it has long granted annually anyway. China's concessions are the price of U.S. support for Chinese WTO membership. Both these concessions and the WTO rules themselves should have a profound impact on China, substantially opening its economy to foreign competition. WTO membership would compel China to change its current commercial laws and practices to conform to WTO rules. Trade disputes would be resolved through the WTO adjudication procedures rather than through bilateral bargaining. China has seemed to prefer bilateral trade bargaining in the past because, as a large country, it is often able to gain more concessions that way. Once it is a WTO member, China would need to negotiate trading terms on a multilateral basis with all members at once.

China's concessions will benefit many major U.S. industries. Among those likely to gain the most are farmers, financial companies, and high-tech industries. U.S. law and accounting firms are also granted expanded access under the agreement. China's concessions in the financial sector are the most profound, because they benefit not only U.S. banks and insurance companies but also other U.S. exporters and investors, who will be able to do business more easily now that U.S. financial service companies can assist them and their Chinese customers. For example, this

agreement will allow U.S. firms to make automobile loans to Chinese customers, thus promoting sales. U.S. firms will also be free for the first time to distribute their products throughout China without going through a Chinese intermediary. These market-opening concessions will be phased in over five years to give Chinese firms a chance to adjust to the prospect of foreign competition.

As the U.S. is already a WTO member and already grants China NTR, China's entry imposes few adjustments on the U.S. compared to the profound changes required of China. To assuage U.S. firms that do face Chinese competition, China has conceded 12-15 years of special protection against any rapid surge in Chinese imports on the presumption that such a surge might result from dumping (selling products below production cost), which is illegal under WTO rules. A U.S. firm can also gain temporary protection against alleged dumping while its legal challenge is in process.

As new sectors of the Chinese economy are opened, U.S. export opportunities will increase work for Americans in industries such as aerospace, chemicals, entertainment, computers, waste treatment, biotechnology, telecommunications equipment, medical equipment, and other high-tech products. Those industries that

are already losing jobs due to Chinese competition, such as textiles and clothing, are little affected by this agreement, because Washington agreed to no significant new trade concessions. It is likely, however, that there will be some loss of U.S. jobs as firms relocate labor-intensive manufacturing from the U.S. to China as conditions there become more favorable to foreign investment.

Joining the WTO would commit China to a path that would immerse more and more of its citizens in international commerce. Their livelihood would increasingly depend on China attracting foreign commerce and maintaining friendly relations with most of the world's nations. The WTO's rules-based procedures would enhance application of commercial law in governing disputes within China, supplanting bureaucratic fiat, as such disputes could be challenged through the WTO. Any reversion to militarism in China would be increasingly costly and counterproductive as its dependence on foreign commerce increases. WTO membership is not a guarantee against future problems—some within China will suffer from increased foreign competition—but it would buttress a powerful bloc of interests within China favoring outward-oriented growth and the conditions, including peace and greater rule of law, required to secure it.

Problems With Current U.S. Policy

The AFL-CIO, several other labor unions, and numerous human rights, fair trade, and environmental NGOs quickly came out against the U.S.-China agreement. If implemented, China's entry into the WTO will impose little adjustment on the U.S., but it will require further substantial liberalization of the Chinese economy. These changes may shuffle wealth and power in China in ways that are potentially explosive. The greatest danger is not that the agreement requires too little of China but that it may require too much too fast. To the extent that this agreement threatens powerful interests and job losses in parts of China, there is a real danger of a xenophobic backlash that could derail further progress in economic liberalization and jeopardize relations with Washington. Thus, although most Americans should welcome the entry of China into the WTO, we should be patient and understanding of the difficulties this transition creates in China. It is important not to rush the pace of change faster than Chinese society can bear.

There are three major economic forces in China today. Internationalists are the first force and the one most obvious to foreigners. They comprise businesses that are internationally competitive, plus their political allies. They are China's exporters, and they include most of the firms that receive foreign investment. Internationalists also employ most of the foreign-educated Chinese, and they are mostly prominent in light industries such as textiles, clothing, toys, food processing, and other simple consumer products. Internationalists are the main economic force that will benefit directly from the WTO agreement, but they constitute only a small fraction of the total economy.

Nationalists are the second major economic force in China. They control businesses (including farms) that are not efficient enough to compete successfully in international trade but that dominate the domestic market. These nationalists are prominent in many

heavy industries and in some farm sectors in which China is not a competitive producer, and they include wheat farmers and most of China's leading chemical, petroleum, high-tech electrical machinery, aircraft, and automobile producers. Occasionally, some of these large firms woo a foreign partner to inject capital and upgrade their technology to make them more competitive, but the political complexities of such investments often discourage foreigners. Thus most nationalists will not benefit from Chinese WTO membership. Instead, they will

suffer in two ways: directly from increased foreign competition and indirectly as increased competition in the financial sector attracts capital away from their losing ventures toward more competitive internationalist firms.

Localists are China's third major economic force. These are producers who are not only less competitive than the world market standard, but also less competitive than the leading national producers within China. They are mostly small-scale producers for local markets. Despite their relative inefficiency, they have helped provide political and economic stability through employment and subsidies. In the past two decades, they have flourished because China's economic liberalization has been accompanied

Key Problems

- WTO entry will increase competition within China, which could induce a political backlash against the current policy of opening to the world market.
 - Intensified competition within China will probably lead to increased job losses there in the short run.
 - WTO entry will not likely promote democratization in China in the short run, but prospects for this are better in the long run.
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by substantial political decentralization. Local officials at every level of government have many means to subsidize and protect local industries. China's agricultural reforms have provided many farmers with increasing income with which to purchase products. The underdevelopment of China's transportation network has insured that, in most parts of China, people buy mostly from local businesses funded by local branches of government banks. This has resulted in hundreds of small-scale producers of items such as fertilizers, steel, cement, motorcycles, and farm machinery. However, the recent rapid construction of highways provides an alternative to state-run railroads, bringing in new competition. Some localists might find ways to redeploy their capital to more efficient pursuits, but many will eventually succumb as outside competition increases. Because China's tariff cuts will increase the competition they face, they will view WTO membership more as a threat than as an opportunity.

Chinese reforms since 1978 have represented an implicit alliance between internationalists and localists. Both have benefited from the transfer to local government of most business oversight as well as tax and regulatory power. This allows internationalists to gain strong support from outward-looking local governments in a few areas, while in most of China local governments try to isolate their local industries from outside competition. Nationalists, on the other hand, have been weakened by political decentralization and by substantial cuts in military procurement.

There is some possibility that a political realignment in China could unite nationalists and localists against the economic liberalization policies of the internationalists, including WTO

membership. Such a backlash might be reinforced by protests from labor against job losses resulting from increased foreign competition, especially if liberalization proceeds too rapidly. The growth of jobs in the internationalist sector may not be rapid enough in the short run to counteract the fall of employment in the less competitive sectors as more and more businesses succumb to competition. On the other hand, WTO membership might strengthen internationalists enough to allow them to resist any policy reversal and maintain prosperity based on trade-oriented growth.

Although U.S. policy favors both democratization and economic liberalization of China, these goals may prove to be contradictory in the short run. Openness to foreign trade and investment favors democratization in the long run, because more Chinese will be educated abroad, work with foreigners, and gain greater access to sources of information and ideas beyond Chinese government control.

This does not mean that the U.S.-China NTR agreement necessarily harms China's prospects for democratization or increases its chances of severe social conflict. Without any agreement, the chances for conflict in the near term might be even greater, as internal competition is increasing anyway. Even if foreigners were closed out of the Chinese economy, a wide gulf would still exist in most industries between the most competitive firms (many of which are now exporting) and the least competitive firms. The current rapid development of the highway system—eclipsing the current state-run, politically controlled railroads—will result in intensified competition, whether or not foreigners are participating.

Toward a New Foreign Policy

As a WTO member, the U.S. government should support China's petition to join this international trade organization. And

Key Recommendations

- The U.S. government should support WTO entry for China.
- Commercial nondiscrimination has been a central tenet (though imperfectly implemented) of U.S. foreign policy for a century because of its benefits for both peace and prosperity. China should not be excluded from these benefits.
- Americans should support WTO membership for China, because it further opens the Chinese market to U.S. products.

the U.S. Congress should end the discriminatory annual review of the normal trading relations with China by granting it NTR status along with most of the world's other nations. China is the only significant U.S. trading partner whose NTR treatment is currently subject to an annual vote by the Congress. This discriminatory treatment is a legacy of the cold war limits on trade with communist countries; its abolition is long overdue.

One important reason to welcome China into the WTO transcends mere commercial benefits. Promoting nondiscriminatory, multilateral commercial practices has been a central tenet of U.S. foreign policy since U.S. international trade policy was

formulated a century ago in opposition to European imperialism in Asia and Latin America. NTR was an American invention that was enshrined as a central principle of international relations after World War II—although extended only to noncommunist “free world” nations—by the General Agreement on Tariffs and Trade (GATT), the precursor to the WTO. By granting NTR automatically to all members, the WTO prohibits countries from setting tariffs or quotas that reward some countries and punish others. Before GATT, trade discrimination was a common tactic for gaining influence abroad, sometimes leading to military intervention and even outright conquest. The U.S. has supported nondiscriminatory multilateral trade as a foundation of a liberal world order in which commercial success is primarily a function of economic competitiveness rather than political control. Depoliticizing commerce reinforces nations' mutual interest in peaceful global commerce rather than battling for exclusive spheres of influence, as occurred when imperialist politics provoked two world wars in this century. Giving China a greater stake in the international system through membership in organizations like the WTO and through broader participation in international commerce will likely influence China to cooperate more fully in international peace and security issues.

Many U.S. consumer, human rights, and labor organizations wish to use trade discrimination as leverage to enforce desirable social policies, such as human rights or environmental standards. Under current WTO rules, the U.S. cannot use human rights as

a litmus test for granting trade privileges. If WTO members—some of whom are worse human rights abusers than China—are not subjected to the same litmus test as China, then it is obvious (especially to the Chinese people) that holding Chinese commerce hostage to a human rights test is hypocritical and discriminatory.

Numerous U.S. advocacy groups recommend incorporating social standards—such as environmental regulation and human rights (including labor rights)—into multilateral organizations such as the WTO. This is a desirable goal if agreement can be reached among the member governments, but until such agreement is reached, China's participation in the WTO should not be blocked on the basis of a higher standard than is applied to any existing member.

Prominent American labor leaders have been most vociferous in opposing any WTO agreement with China. Their arguments against it are based both on China's repression of labor organizers and on the supposed loss of American jobs that would result. Certainly worker rights in China today are far inferior to those of most of the other top U.S. trading partners. Independent unions and collective bargaining rights are suppressed. Yet many other

developing countries that inflict similar repression on workers are already WTO members, so singling out China for exclusion is obviously discriminatory.

Furthermore, WTO membership is likely to improve workers' rights in China over the long term. Foreign employers in China today typically pay wages many times higher than those paid by domestic firms. Opening the way for more U.S. investment in China will improve wages and spread information among Chinese workers about the superior rights of workers abroad.

Isolating China from the world community is not an effective way to encourage either democratization or human rights. Approving China's entry into the WTO will bring the world's most populous nation into an important multilateral forum with 135 other nations. Joining the WTO will not resolve the many deep social, political, and economic problems of China. However, expanded foreign commercial relations have already contributed to a significant increase in the standard of living and life alternatives of most Chinese. WTO membership will help ensure that this expansion of the realm of freedom and possibilities continues.

Foreign Policy in Focus is a joint project of the Interhemispheric Resource Center (IRC) and the Institute for Policy Studies (IPS). The project depends on sales and subscription income, individual donors, and grants from The John D. and Catherine T. MacArthur Foundation, General Service Foundation, and various church organizations. *In Focus* internships are available. ISSN 1524-1939

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