

## **China's economy and the WTO** All change How China has been altered by its entry into the WTO ten years ago

Dec 10th 2011 | HONG KONG | from the print edition

### **China's economy and the WTO**

#### **All change**

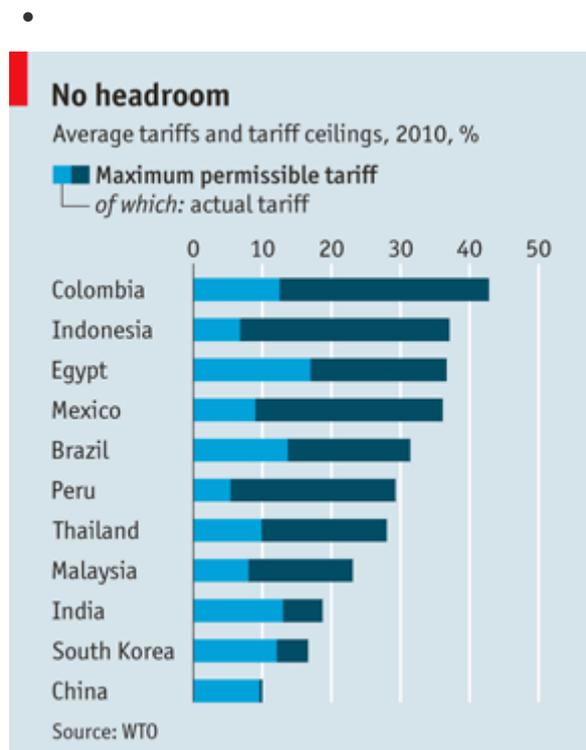
In two articles, we examine how China has been altered by its entry into the WTO ten years ago. First, the economy. **Second, the political impact**



**THE World Trade Organisation (WTO), like many clubs, denies patrons the right of automatic readmission. Having quit the organisation's predecessor shortly after the Communist revolution of 1949, China had to wait 15 long years to gain entry after reapplying in the 1980s. The doors finally opened on December 11th 2001, ten years ago this week.**

**The price of re-entry was as steep as the wait was long. China had to relax over 7,000 tariffs, quotas**

**and other trade barriers.** Some feared that foreign competition would uproot farmers and upend rusty state-owned enterprises (SOEs), as to some extent it did. But **China, overall, has enjoyed one of the best decades in global economic history. Its dollar GDP has quadrupled, its exports almost quintupled.**



Many foreigners also prospered. American foreign direct investment reaps returns of 13.5% in China, compared with 9.7% worldwide, according to K.C. Fung of the University of California, Santa Cruz. China imposes lower tariffs on average than Brazil or India. The gap between what it can charge, under WTO rules, and what it does charge is also unusually small. So unlike its peers, China could not raise tariffs much even if it wanted to (see chart).

Yet in America, China's single biggest trading partner, sentiment towards the country has turned starkly negative. In a recent poll, 61% of Americans said that China's recent economic expansion had been bad for America; just 15% thought it had been good. This partly reflects China's controversial currency regime. By keeping the exchange rate down, China's critics allege, it has gained a substitute for the mercantilist measures it gave up to join the WTO.

Foreign frustration is partly a sign of China's success. As its economy has grown and matured, the stakes have risen. Foreign firms lament losing trade battles they might not bother to wage in a less lucrative market. They also face competition from local upstarts in markets where no such rivals previously existed.

Electronic payments are one example. China's first ever payment card was issued in 1986 by MasterCard. Foreign brands remained dominant at the time of China's WTO entry. But shortly afterwards, China's central bank established a domestic competitor, China UnionPay, and gave it a de facto monopoly over the handling of local-currency payments between merchants and banks. This setback might have been easier to take for foreign companies had the market not since grown tenfold, to \$1.6 trillion, according to The Nilson Report, an industry newsletter.

**China's economy has evolved faster than anyone hoped. But its economic philosophy has not.** Long Yongtu, who helped China win admission to the WTO, recently said that China is now moving further away from the organisation's principles. To modernise its economy, it has remained wedded to industrial policies, state-owned enterprises, and a **"techno-nationalism" that protects and promotes home-grown technologies.**

**Many foreign companies feel they must compete not with Chinese firms but with the Chinese state.**

Between them, China's central and local governments own over 100,000 companies and implicitly favour many more. Thanks to the WTO, foreign firms are no longer required to hand over technology in exchange for entry to China's market. But many still feel an informal pressure to do so. China is also keen to promote its own firms by enforcing its own technological standards, such as for 3G mobile phones.

Many of these interventions violate the spirit, if not always the letter of WTO rules. In response, America often pushes back bilaterally rather than in Geneva, according to a former American trade negotiator. This is partly because

companies worry they will face retribution from China's government if they provide evidence against it in a trade case. It is also because much of what China does falls into a grey area that is not easy for the WTO to police.

China, on the other hand, is growing more comfortable with the WTO machinery. In its early years as a member, it shied away from confrontation, points out Henry Gao of Singapore Management University. In 2006, for example, America threatened to file a complaint over China's duties on kraft linerboard. China lifted the duties the next working day. But now the Chinese have learned the ropes, they have also become more proactive. "Now they defend themselves," says Nicholas Lardy of the Peterson Institute, a Washington think-tank. "They initiate cases. And when they lose, they comply."

In some cases the discrimination is no worse than before, it is simply more visible. As part of its WTO agreement, China now circulates draft laws and regulations for 30 days to collect comments. That has made it easier for foreigners to spot foul play. America recently complained that China had failed to notify the WTO of nearly 200 subsidy programmes, such as those supporting green-energy technology. It knew this in part because China, following its newly transparent practice, had disclosed many such programmes online, the former negotiator said: "Similar policy announcements were *neibu* (for limited distribution) in the past."

**China's trade policies may look a little uglier than WTO members had hoped when they opened the club's doors ten years ago. But that is partly because the lights have been turned on.**