China’s Accession to the WTO: an Overview of Domestic and External Implications

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On 11 December 2001 China became the 143rd member of the World Trade Organization (WTO). This way, a 15 years-long quest came to an end, concluding the first chapter of a remarkably rich learning process for all parties concerned (Chapter 2 gives a first-hand, authoritative account from the Chinese perspective). There can be little doubt that the implementation stage of the accession agreement, including both China’s adaptation to WTO rules and WTO adaptation to its more universal membership base, although an unlikely subject for replication in the aggregate, will also be a rich source of lessons for the international community, particularly the developing countries.

WTO accession means for China a key step forward in its unprecedented strategy to catch up with the advanced industrial world by means of market socialism. This way China legitimizes internationally its vocation to regain its place at the world technological and productivity frontier within the span of a few decades. And it does so without adopting orthodox prescriptions, such as brisk capital account liberalization or privatization of its state-owned enterprises (SOEs).

The terms of China’s accession to the WTO may be viewed as a deal whereby, for the sake of significant medium- and long-term mutual gains, China accepts the risks involved in limiting the degree of heterodoxy of its peculiar brand of catching up and China’s trade partners take the risks entailed in trusting the ability of China’s leadership to deliver on its commitments.

This is a high-stakes game for all concerned. The major risk incurred by China is the potentially disruptive social implications of carrying out, within a decade or so, the wholesale adaptation of its economic,
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institutional and legal structure to a still untested brand of market-led competition. China’s trade partners risk significant shifts in relative competitive advantage.

China has reasserted its rights to considerable elbow-room in policy design and implementation. This does not mean that China has extracted undue unilateral advantages: on the contrary, the magnitude of the commitments made by China's leadership leaves it facing daunting challenges and risks. In addition, China is likely to pay a premium for choosing to catch up via market socialism rather than through market capitalism (see below).

The challenges ahead cannot be overstated. The terms of the agreement suggest China’s self-confidence in the ability to draw on its manufacturing prowess to a much larger extent than before. This China will attempt to do by matching an enhanced innovative and technological capability with labour cost advantages that are unlikely to vanish in the near future.

Inward dimensions

China faces a wide variety of challenges in striving to promote national development and catch up with the industrial countries along an original track. WTO accession has already demanded and will continue to demand the deployment of enormous and highly qualified manpower resources. For instance, China must amend no less than 177 domestic laws and regulations regarding custom administration, foreign investment, intellectual property and services to ensure consistency with WTO obligations (see Chapter 2). These laws and regulations need to be properly revised and then passed by the National People’s Congress (NPC). Judges have to be trained, the legal institutions and procedures need to ensure that the laws are fairly and impartially upheld and the legal judgements must be enforceable throughout the country. In addition, there is the need to maintain the momentum of reform; address resource shortages, low productivity and quality deficiencies; reallocate a high percentage of the labour force; attend the needs of the social security, educational and science and technology (S&T) systems; correct regional unevenness and address deflationary pressures.

Keeping up with continuous reform at the necessary speed, neither too fast nor too slow, will be particularly demanded if, as intended, it is to be based on innovative homegrown transitional institutional and policy devices. Most of the challenges involve taking entirely new approaches. Consider quality as a case in point: hitherto seen largely as