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Implications of China’s Accession for the Asia-Pacific Countries

Chae Wook and Han Hongyul

Accession to the World Trade Organization (WTO) will launch China into the global economy, accelerating its market-opening process. The expectation is that this will bring tremendous changes to the international economy as well as to China’s. While developed countries like the United States, European Union (EU), Japan and Canada have been leading the world trade order so far, it is expected that developing countries, including China, will become much more influential in the multilateral trading system.

China will be able to strive to reach the state of an advanced economy with a new approach to the ‘reform and open-door policy’, which has been promoted since 1979. With the entry to the WTO, China will be forced to remove the barriers to trade and investment, improving market access for foreign capital and commodities. This will activate the market function; consequently, China’s market will expand, and foreign enterprises will increasingly advance into it. In that process, some domestic industries may suffer from restructuring, while the overall Chinese economy will become more competitive.

Taking it into account that China has already been enjoying most-favoured-nation (MFN) status with 140 trading partners, it may not be able to achieve visible export increase for the time being. However, as the market expands in size and the market function works effectively, Chinese products will become more competitive internationally, in terms of price and non-price factors. Thus, Chinese upmarket, high-quality products will penetrate the world market. It is worth emphasizing, however, that such effects will come true only if China complies with the WTO rules and bound commitments.

China’s entry into the WTO will have a critical impact on the global economy as well. Primarily, as China promotes ‘reform and globaliza-
tion’, exports by other countries will rush to China. Then, competition among countries and firms to enter the huge Chinese market will create further trade, thereby contributing to the world economy. It is also conceivable that China will play an important role in strengthening the efficacy of world trade rules by reforming its domestic institutions in a way that is consistent with international norms.

However, China’s entry to the WTO will sensibly affect its trading partners, particularly the developing countries. In the short run, developing countries will be able to improve their trade balance with China, as China accelerates its market-opening. In the long run, though, as Chinese products become more competitive in the world market, they are highly likely to make inroads in the markets of trading partners. Developing economies in the Asia-Pacific (AP) region may be the most affected, because their labour-intensive products will have to compete with Chinese commodities. Therefore, unless innovative reform is fostered by those countries, their exports will fall behind in competition, and economic growth will deteriorate.

World trade and the AP developing economies

In 1990–97, Asian trade grew faster than world trade as a whole, including both advanced and developing economies. World trade in manufactures grew most significantly during this period. Trade in machinery and transport equipment is unique, because it is the only sector in which trade by the advanced economies recorded the highest growth. The second-highest growth by both advanced economies and Asian economies was recorded in chemicals and chemical products. In all remaining products, the Asian economies were the most active traders. In short, world trade is becoming more and more concentrated in the advanced and Asian economies. This suggests that it is more and more plausible to explain international trade flows by theories based on technological aspects and economies of scale than by factor-endowment theory alone.

While it is true that developing economies have great stakes in the trade in manufactures, it is important to note that their shares fall very short of the average for the developed economies. The structure of trade by major trading groups is characterized by the following (Table 3.1):

- Machinery and transport equipment take the lion’s share, followed by the ‘other manufactured goods’ of the Standard International