

Trade, China and the World Economic Order, Part 2: Has China's Accession to the WTO Made the World a Better Place?

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In 2001, China became the first centrally-planned economy admitted to the World Trade Organization (WTO) -- the only global international organization designed to facilitate multilateral trade between its member nations. The WTO's self-professed primary purpose is "to open trade for the benefit of all."

"The purpose of the World Trade Organization is to make the world better off, measured by values that determine what is better and what is worse," said University of Michigan law professor Joseph Vining at the recent Kearny Alliance/ASU Forum on Trade, China and the World Economic Order. The W. P. Carey School of Business and ASU's Sandra Day O'Connor College of Law are partnering with The Kearny Alliance to host the forum.

One question at the heart of the forum's discussion was this: Has China's membership in the WTO, in fact, made the world better off? The tentative answer, at least, seems to be yes.

China and the WTO

The World Trade Organization was established in 1995 as the descendant of the General Agreement on Tariffs and Trade (GATT), which had provided a foundation for multilateral trading since 1948.

But today the WTO is more than a set of multilateral trade agreements, said intellectual property attorney Karen Dickinson. "The WTO is both a principle and a process. The principle is the most-favored nation status [known in the United States as "normal trading relation" status] that each member nation grants the others. The process is dispute resolution," she said.

Gaining normal trading relation status means that the products exported from a country joining the WTO (like Chinese products) to another WTO member country receive the lowest import duties already being applied to products from other existing WTO members, explained economics Professor Jose Mendez.

That does not mean that member nations trade among themselves without management. "The WTO doesn't mean completely laissez faire (hands-off) trade," added Dickinson.

China was not one of the countries to sign the WTO agreement in 1995. Instead, it became a member in 2001, "despite concerns among other members about dealing for the first time with a centrally-planned economy," recounted international trade attorney Stephen Kho.

Because of the uniqueness of China's accession -- never before had a centrally-planned economy been allowed into the trade organization -- China was subject to a slew of special rules and extra obligations that went along with its WTO membership. The question on everyone's mind, Kho said, was "Is it possible to integrate a centrally-planned economy into the global trading system?"

A centrally-planned economy is one in which the central government sets goals, wages and prices, and determines where and how labor and capital flow, said Jose Mendez, a W. P. Carey professor of economics. China fights hard to avoid being placed in that category, said Kho, adding, "China is certainly moving away from a centrally-planned economy toward a market-based economy."

The economic benefits of China's accession

Generally, the benefit for a country that becomes a member of the WTO is its new status as a "most-favored nation" with the other WTO members -- meaning trade should flow more freely than it might between a WTO member and a non-member.

But what are the benefits, from the United States' perspective, of China's membership in the WTO?

The data seem to bear out Edward Prescott's idea that world economic leaders and trading partners are like the members of a club, where the inclusion of a new member enhances the benefits enjoyed by the other members. "We all gain from having more people in the club," said Prescott, 2004 Nobel Laureate and W. P. Carey School professor of economics.

According to the United States Trade Representative (USTR) December 2008 Report to Congress on China's WTO Compliance, "China's WTO membership has continued to provide substantial ongoing benefits to the United States. Each year since China joined the WTO in 2001, U.S.-China trade has expanded dramatically, providing numerous and substantial opportunities for U.S. businesses, workers, farmers and service suppliers and a wealth of affordable goods for U.S. consumers." In 2007, China was the United States' second-largest goods trading partner, with two-way trade totaling \$387 billion; two-way services trade totaled \$23 billion.

The social benefits of China's accession

"Initially, interest was on how the U.S. can affect China; it shifted to how the U.S. and China can affect the world and, now, how China will affect the U.S.," said law Professor Vining. In his opinion, China's effect on the U.S. will be positive -- it could, in fact, be America's saving grace.

That's because the way China thinks could steer the U.S. away from a dangerous trend -- a "general tendency in Western thought, to make business and corporate decision-making entirely manipulative and calculating, and to eliminate the force of human value from it," wrote Vining in "China, Business Law, and Finance: Accession to the World Trade Organization."

Vining sees a trend in the U.S. toward a business model that assumes an exclusive interest in profit maximization. "Evolutionary biologists and sociologists assume this exclusive interest. They see each of us as only self-serving systems responding to the actions of other self-serving systems," Vining said. "Moving from making that assumption to teaching it or mandating it is difficult to resist."

Yet China thinks very differently about how and why business decisions should be made. The new 2006 Company Law of the People's Republic of China has many of the same connections with socialist hopes as its predecessor law had, with explicit mandates to "respect," and "undertake ... social responsibility" in addition to "commercial ethics." Specific mandates make worker safety in production a corporate concern.

The question, then, as Vining posed it is: "Will the development of China's economic institutions and China's integration into the world economy and our own have the surprising effect of blunting the West's desire to maximize profit and make the world more humane than it otherwise would have been?"

The answer, Vining said, is yes. "China's moving into full economic communion with the Western world is an enormous event. It will have enormous consequences. It will affect not only how we live and how well we live, both in China and in the West, our eating and drinking and clothing and medical care and hopes for our children, not only these tangible things. It will affect how we think as well. As trade and production become worldwide, so do ways of thinking."

China has acceded -- where does it stand now?

China's entrance into the WTO may yield economic and social benefits, but the country's trading partners, including the United States, still look with a keen, slightly skeptical eye at China's adherence to its WTO agreements.

According to the USTR report, China has met its WTO responsibilities fairly well. "China has taken many impressive steps over the last seven years to reform its economy, while making progress in implementing a set of sweeping WTO accession commitments that required it to reduce tariff rates, eliminate non-tariff barriers, provide national treatment and improved market access for goods and services imported from the United States and other WTO members, protect intellectual property rights, and improve transparency."

"Since its WTO accession, China has passed countless new laws -- expansion of the rule of law and increasing transparency seem to be to the country's advantage," said Dickinson, the intellectual property attorney. "It's a good sign that China is engaging the WTO process -- using the organization's dispute mechanisms rather than simply crying 'trade war' when it feels disadvantaged, for example."

"Nevertheless," reports the USTR, "in some areas it appears that China has yet to fully implement important commitments, and in other areas significant questions have arisen regarding China's adherence to ongoing WTO obligations, including core WTO principles ... government intervention, still evident in many areas of China's economy, is a reflection of China's historic yet unfinished transition from a centrally planned economy to a free-market economy governed by rule of law."

One problem, according to both Dickinson and the USTR report, is differences in views and approaches between China's central government and its provisional and local governments. "There's a saying in China that heaven is high and the emperor is far away," Dickinson said. "At times, so is Beijing -- the central government can pass intellectual property rights laws, for example, but maybe the local government in Guangzhou will ignore those laws to protect its own industries."

Realizing potential benefits of China's inclusion

"China is now at a tipping point," said Merle Hinrichs, chairman and CEO of Global Sources. "From here, it will either move forward toward a market economy or backward toward a state-run economy." In 2007, the USTR stated that preventing China from regressing back to a full-fledged state-run economy was "one of the critical issues for the international trading system."

U.S. companies in 2008 reported to the USTR evidence that China had moved backward, toward a more restrictive trade regime. Evidence included "the setting of unique Chinese national standards, an array of policies promoting and protecting 'pillar industries,' the promotion of famous Chinese brands of merchandise using what appear to be prohibited forms of financial support, new and additional

restrictions on foreign investment in China, and the continuing consideration of 'national economic security' when evaluating mergers and acquisitions."

Hinrichs said that the West has a role to play in preventing China from moving out of the global trade playing field. "The West should encourage, promote, enhance China's initiatives to move toward a market economy," he said.

That, the consensus seems to be, would be good for China -- and for the U.S., too.

Bottom Line:

In 2001, China became the first centrally-planned economy to accede to the World Trade Organization (WTO).

"The purpose of the World Trade Organization is to make the world better off, measured by values that determine what is better and what is worse," according to Joseph Vining. Forum participants agreed that China's membership in the WTO has, in fact, made the world better off.

China's WTO membership has provided substantial ongoing economic benefits to the United States, according to a 2008 United States Trade Representative report.

There are social benefits from China's integration into the world economy as well; it may have "the surprising effect of blunting the West's desire to maximize profit and make the world more humane than it otherwise would have been," according to Vining.

China has taken many impressive steps over the last seven years to reform its economy, while making progress in implementing a set of sweeping WTO accession commitments. Nevertheless, in some areas it appears that China has yet to fully implement important commitments, and in other areas significant questions have arisen regarding China's adherence to ongoing WTO obligations.

"China is now at a tipping point -- it will either move forward toward a market economy or back toward a state-run economy," said Merle Hinrichs. The West should work to ensure that China moves forward, not backward.

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