

Part 3 China's Accession to WTO and Japan-China Economic Relation

Keio's Paper

China's Accession to WTO and its Effects on Chinese Economy

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Chapter 1 Accession to WTO

It is determined in the year 2001 that China will join in World trade organization. There are many arguments over the involvement of Chinese accession to WTO. In our presentation, we would first discuss the influences to Chinese economy after its accession to WTO, then we would like to analyze the trade environment in China. Third, we will mention the problems that China is expected to face after its accession to WTO, and lastly, we would like to propose some correspondence to China that Japan has undertaken while its accession to GATT.

It is expected that China will be institutionally influenced after its has joined WTO: One of the responsibilities that China will need to be responsible of keeping is to follow the commercial international trade rule.

More specifically about the trade rule, the following three points are emphasized.

First, China will have to abolish the payment of export subsidy to any goods other than agricultural products. Through abolishing the subsidy, dumping within the nation is expected to be prevented.

Second, according to the Assignment on Quantity of Import, to control the quantity of import by the assignment should be abolished. However, this limitation will not apply to domestic industry, which falls difficult due to import. According to WTO rule, when sudden import from foreign country has expanded unexpectedly which resulted in great damage to the particular national industry, the country can take action known as "safeguard", which is the provision for removing non-tariff barriers.

Thirdly, When introducing a new customs duty or gathering a tariff rate, China has

to adjust by lowering the tariff rate of other goods so that damage may not reach an exporting country. About a customs duty, this means that it must adjust at the scene of WTO. China is expected to proceed in reduction in a customs duty. It is expected that China to reduce gradually from 23% to 15% at an arithmetic average

Since the import tariff from a foreign country becomes relatively cheap by the affiliation to WTO, import to China is expected to increase rapidly.

Chapter 2 The Environment of Chinese Trade

Then how will the Chinese economy be influenced when China becomes a member of WTO? To answer this question, we had surveyed the structure of Chinese trade.

2.1. Trading partners of China

The pie chart in your resume shows the percentage of countries or areas, which are the main traders with China.

According to this chart, United States, Hong Kong, Japan and EU covers about 70% of the imports and Chinese exports. This means that the economical conditions of these countries and areas have a great influence on Chinese exportation.

2.2. Trend of World Economy

Yet, by looking at the trend of world economy, including these countries that are mentioned above, it is currently in its downswing phase, and is expected to remain low further from now on. Not only the monthly GDP growth rate of U.S. from April to June in the year is 0.2%, the economy has come into the phase of adjustment. This is due to the depression centering on IT related industries, and this IT depression is spreading globally. Japan, which has undergone serious long-term depression, is also influenced by this IT depression, which has lead to one of the lowest point of Japan economy. In response to this low trend of world economy Chinese premier Zhu Rongji said that China should consider the influences of the slowdown of US and Japan economy seriously. And he is issuing the directions with "perform all measures made for a trade expansion." As for China, in order to avoid big damages due to the economical situation in Japan and US, Chinese may have to diversify its trade partner's from now on.

2.3. The trend of RMB

Along with world economy, another factor that has a great influence on Chinese economy is the rate of RMB. Presently, China takes on managed floating exchange system, which means the rate of RMB is substantially fixed, which deals around 1\$ =8.2 Yuan.

Yet, demand for RMB is increasing between the foreign capitals in China. Also, there are voices from the Japanese industries that the RMB is too cheap. Not only Japan shows concern towards the price of RMB, there is also an increase of pressure that now forces China to raise the RMB rate.

Yet, in order to maintain competitiveness of export products, the People's Bank of China plans to avoid raising the rate of RMB, and to try to keep the rate it is now.

Here, we'd like to think about the effectiveness of keeping the exchange rate. The RMB is practically fixed to dollars, but floats to euro and yens, so the rate between yen and RMB keeps changing. The weight average of each currency and RMB by trade volume is the real effective exchange rate. This index may be concerned as the price competitiveness.

According to the graph on resume, one can see that the recent REER of RMB is increasing, due to the weakening of the yen, which will result in weakening of the price competitiveness in the long run. So, the need to consider basket of currency may increase.

Now we have looked over the structure of trade including the influence of rate of RMB in China. In chapter three, we'd like to discuss the problems of China at joining of WTO.

Chapter 3 The Existing Problems in China at Joining the WTO

In this chapter, we have raised few points that China should improve before or shortly after joining the WTO

3.1. The amendments of systems and ordinance

China will have the responsibility to keep and follow the amendments of systems and ordinance, which might be difficult.

Laws essential to WTO countries, such as anti-dumping, anti-monopoly laws are yet on the way, and establishment of such rules are expected to be made in a short time, in order to correspond to China's affiliation to WTO.

Also, for it does not consist with the WTO rule, more than 570 laws regarding trade will need to be repealed and 140 rules are required to be reviewed.

Secondly, the decisions of the central government are slow in reaching the local governments and individual companies. Three years ago, the local policemen-taking road taxes personally was reported on CCTV, and started a large dispute. The serious infringement of intellectual property is another example. The protection of intellectual property is a necessary subject to all WTO countries. The laws concerning intellectual property were changed last year in China, but the abolishment of brand-copying factories, an agreement made in 1996 with the United States, did not progress smoothly, and is still a subject to international accusation.

Also, Chinese brand-copying companies were recently found exporting copied Honda vehicles to Vietnam.

As could be seen in these cases, it is obvious that the government regulation has not reached to the grass-roots levels.

3.2. International competition of Chinese companies

One of the biggest damage that companies in China is expected to face after joining

the WTO, is the serious international competition that China will be forced to face. In our presentation, we had examined the situation of automobile industry in China after its accession to WTO.

The automobile industry had been protected by a high tariff of 200%, and is one of the industries that, in the short run, will face the greatest challenge.

In 1992, the Chinese government regarded the auto industry as an industry with development potential. Therefore, in 1994, the government enacted the "Auto Industry Policy", a concept to unite the auto companies into 8 to 10 groups by 2000, 3 to 4 groups by 2010. However, more than 110 automobile companies existed in 2000 - which was hardly a change, concerning that in 1994, when the "Auto Industry Policy" had been adopted, there were 120 auto companies.

Although the merger with overseas companies is progressing, the yearly national production of automobiles is around 2 million; same level as most of the world's middle class automakers. It is also said that, compared to the international market, the price of domestic middle sized passenger cars are 50% higher, and its development capability is 15 years behind.

Through this analysis, one can see that in order to survive in the international competition, automobile industry in China will have to improve on its technology and precede new strategies, which in the short run is believed to be difficult.

By opening up the market, Chinese companies will face a hard time, and it cannot optimistically be said that just by joining the WTO, it would gain international competence.

Chapter 4 Correspondence to Liberalization of Japan, and Proposal to China

Although the national industries will be hit hard by China's accession to WTO, such accession may not be avoided. So, what can Chinese do to protect itself from the damages that it is expected to face after its accession to WTO?

Japan is one of the countries that faced and experienced rapid liberalization when it joined GATT. For China's reference to the problems that some domestic industries might face after she enters WTO, we would like to introduce some correspondences made by Japan at the time.

4.1. Credibility expansion

In 1973, the standard of conduct for general trading companies was announced. Following to this announcement, the standard of conduct about foreign investment of each industry was also announced in 1983. This became the ethical indicator to how a sensible company should work overseas.

In order to expand credibility of Chinese companies, we recommend that Chinese government to summarize and practice out the international manners and the rules. Also, the action agenda for each industry should be organized and informed.

4.2. Trade expansion

Through opening up its market, it will also be a chance to introduce Chinese products to rest of the world. When Japan first joined GATT, The Japanese government thought the lack of advertisement is the main influence to the weakness in the competition in the international market. To this, the government held the international trade fair in Osaka in 1954. Consequently, a large amount of export negotiation came to consent, and the Ministry of International Trade and Industry announced that the result was outstanding.

Furthermore, to advertise Japanese product, Japanese ships loading products was dispatched to Latin American countries. Japanese companies participated actively in the exposition and international trade fair of each country. It is thought that these involvement to be very effective to introduce goods on a network.

Now, due to the expansion of wide-use of Internet, making the large-scale homepage is believed to be effective. Furthermore, Japanese government founded JETRO, which has played the big role in oversea market investigation or advertisement overseas on Japanese products.

We would like to propose in carrying out establishment of the organization applicable to JETRO in China, or something similar which functions as reinforcement of the trade promotion association. Such organization, which investigates on overseas fashion, taste, the status of the market condition, political economic conditions, etc, will play the role of present overseas capital attraction, and should be carried out by strengthening on investigation of the function.

4.3. Competitive Power Expansion

Lastly, various trade policies for the competitive power expansion that Japan has undergone may apply as reference to China's commerce policies.

First, Japan maintained weak-yen politically. When Japan joined GATT, price competitiveness was maintained and export was made to expand by stopping the upward pressure on the yen of a market.

Although there is former high-pressure power about the present RMB, it is suggested that China maintain the present level for a while. Moreover, it is thought that the necessity of examining a currency basket system also comes out to the fall tendency of a mid-term circle.

Next, in Japan, protection training was performed in an import-restrictions policy in the industry of a car, a film, an electric machine, etc. Thereby, it grew up to be an important export industry of the 80s of the 70s, and by the time it supported Japanese economy, it became. Thus, within limits, which set up important items and are allowed in WTO also in China, if protection training is performed, it will be thought that it is good.

Finally, Japan has shifted the export items to thing that has higher competitive power from price competitiveness. Thereby, even at the height of the subsequent labor force price, the competitive power of quality was still maintainable. By rising preponderantly items, which have nature competitive power, heightened about an export

industry, China is also believed to survive in the world's competition.

Japan's correspondence and the proposal to China have been described as above. We hope that through our suggestion, China will be able to proceed in reform and to expect it by accession to WTO. This will result China to be able to enjoy great profits, which will also benefit Japan, which has close relation simultaneously.