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Handout on China

1. WTO Accession and Impacts

Box 2.1. Selected Aspects of China's WTO Accession[1]

Trade in Goods

All tariffs on imported goods are to be eliminated or reduced, mostly by 2004. Tariffs on industrial goods will be reduced to an average of 9 percent, and import quotas will be removed by 2005. Tariffs on agricultural goods will be lowered to an average of 15 percent.

Trade in Services

Foreign access is to be ensured through transparent and automatic licensing procedures in various sectors, including banking and insurance, legal and other professional services, telecommunications, and tourism. Specifically:

- *Right to trade and distribution.* Within two years foreign service suppliers will be permitted to engage in the retailing of all products (implemented at end-2003); within three years (by end-2004) all firms will have the right to import and export all goods except those subject to state trading monopolies (e.g., oil and fertilizers); within five years (by end-2006), foreign firms will be allowed to distribute virtually all goods domestically.
- *Banking.* Foreign financial institutions were permitted to provide services without client restrictions for foreign currency business upon accession; local currency services to Chinese companies within two years (implemented at end-2003); and services to all Chinese clients within five years (by end-2006).

Trading and Investment Regimes

- *National treatment/nondiscrimination.* Measures and practices that discriminate against imported products or foreign companies will be removed.
- *Export subsidies.* Upon accession, all forms of export subsidies inconsistent with WTO rules, including grants and tax breaks linked to export performance, were eliminated.
- *Trade-Related Investment Measures (TRIMs).* Foreign investment approvals will no longer be subject to mandatory requirements (e.g., technology transfer or local content requirements).
- *Trade-Related Aspects of Intellectual Property Rights (TRIPs).* China will enforce the rights protecting intellectual property within China.
- *Agricultural subsidies.* China has agreed to limit domestic agricultural subsidies to 8.5 percent of the value of production (i.e., less than the 10 percent limit allowed for developing countries under the WTO Agreement on Agriculture), and to eliminate all agricultural export subsidies upon accession.

Trading Partner Safeguards

- *Transitional product-specific safeguard mechanism.* As provided under the WTO Agreement on Safeguards, a country may impose restrictions on imports if it can demonstrate that they cause or threaten to cause serious injury to domestic firms producing similar products.
- *Special safeguard mechanism for China's textile and clothing exports.*
- *Antidumping.* Under the WTO agreement, other members can invoke "nonmarket economy" provisions to determine dumping cases for 15 years following accession. Nonmarket economy provisions imply that domestic prices cannot be used as a reference point and make it much easier to reach a positive finding in an antidumping investigation.

[1]A more complete description of the terms of China's WTO accession is available at http://www.wto.org/english/news_e/pres01_e/pr252_e.htm.

Box 2.2. The International Impact of China's WTO Accession

Methodologies. Research aimed at quantifying the impact of China's WTO accession intensified in the late 1990s. It has focused on the specific impact of WTO-related trade reforms in China against baseline projections incorporating Uruguay Round trade reforms. The welfare impact has been assessed based on global general equilibrium models: the Global Trade Analysis Project (GTAP) developed at Purdue University, which focuses on terms of trade and trade flow effects, is one of these models; other studies are based on the G-Cubed Asia Pacific Model developed at the Australian National University.

Results. Most studies concur that China's WTO accession will entail an overall welfare gain for China and the world as a whole. However, since China's tariffs have already been lowered substantially, this effect is not likely to be sizable in the future. Another general result is that countries will tend to benefit (or lose) in proportion to the degree of complementarity between their trade patterns and China's. More detailed results include the following:[1]

- Sustaining China's growth momentum should provide benefits to most of its trading partners: in addition to the prominent role played by processing trade, imports for domestic use have increased rapidly and outbound tourism grew by 37 percent in 2002. Multinational companies are increasingly investing in China to meet local final demand rather than solely for reexport purposes. China's energy and mineral imports are also expected to continue to increase rapidly, providing benefits to resource-rich countries. These developments have contributed to maintaining strong growth in the Asian region despite low growth in the rest of the world.
- The NIEs of Asia, in particular, would gain from China's expanding trade: most of them have a complementary trade pattern with China and are benefiting from processing trade, as reflected in the rapid increase in their exports of intermediate products and components to China. However, China's exports are moving up the value-added chain and domestic production of components is rising. While China could pose a more direct competitive threat to these economies in the future, the benefits from growing intraindustry trade are likely to dominate.
- ASEAN countries and South Asia are also experiencing benefits as exports of all countries to China are expanding rapidly. However, to the extent that there is competition in the export of labor-intensive products, some of these economies may have to undergo significant adjustments. For example, the expected future growth in China's clothing exports could have an adverse impact, especially for quota-dependent low- and middle-income economies—although this impact could be mitigated for some countries by increased opportunities for textile exports to China as inputs for China's clothing exports. ASEAN countries may also have to adjust to a greater share of FDI in the region going to China, and take steps to ensure that technological innovations and productivity improvements continue to take place in their economies.

Limits to existing research. The actual impact of China's WTO accession on the rest of the world may prove greater than such analyses would suggest. First, most existing models have several technical limitations, including uncertainties in estimated trade elasticities stemming from rapid changes in the structure of China's and the region's international trade. More fundamentally, most models fail to take into account key aspects of China's WTO membership, such as the opening of trade in services or reforms that will remove obstacles to foreign investment and further change China's role as a global export base.

[1]See, for example, Adhikari and Yang (2002), Hertel and Walmsley (2000), Ianchovichina and Martin (2003), and Panitchpakdi and Clifford (2002). For the impact on developing countries, see Yang (2003).

Table 2.7. Tariffs

	Unweighted Average[1]	Weighted Average[1]	Dispersion (SD)	Max
1982	55.6	...	...	...
1985	43.3	...	...	...
1988	43.7	...	...	...
1991	44.1	...	...	...
1992	42.9	40.6	...	220.0
1993	39.9	38.4	29.9	220.0
1994	36.3	35.5	27.9	...
1995	35.2	26.8	...	220.0
1996	23.6	22.6	17.4	121.6
1997	17.6	16.0	13.0	121.6
1998	17.5	15.7	13.0	121.6
2000	16.4	...	...	...
2001	15.3	9.1	12.1	121.6
2002	12.3	6.4	9.1	71.0

Sources: Chinese authorities; United Nations Conference on Trade and Development; World Bank; WTO; and IMF staff estimates

[1]The unweighted average is based on a simple average of the statutory rates for the relevant year. The weighted average is based on the statutory rates weighted by the value of imports in each category.

Table 2.1. Market Share in Major Export Markets
(Imports from China divided by total imports, in percent)

	1970	1980	1990	1995	2000	2002	2003
Japan	1.4	3.1	5.1	10.7	14.5	18.3	18.5
United States	0.0	0.5	3.2	6.3	8.6	11.1	12.5
European Union[1]	0.6	0.7	2.0	3.8	6.2	7.5	8.9

Source: IMF, *Direction of Trade Statistics*.
[1]Excluding intra-EU trade.

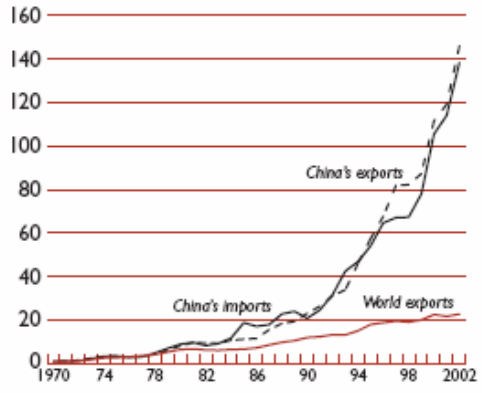
Table 2.2. Sources of Imports
(As a percent of China's total imports)

	1980	1990	1995	2000	2002	2003
Asia	15.0	41.0	47.1	53.5	53.1	52.8
ASEAN	3.4	5.6	7.4	9.3	10.4	11.3
Japan	26.5	14.2	21.9	17.8	18.1	18.0
Korea	...	0.4	7.8	10.0	9.7	10.4
Taiwan Province of China	...	...	11.2	11.3	12.9	12.9
European Union	15.8	17.0	16.1	13.3	13.1	12.9
United States	19.6	12.2	12.2	9.6	9.2	8.2

Sources: IMF, *Direction of Trade Statistics*; and CEIC database.

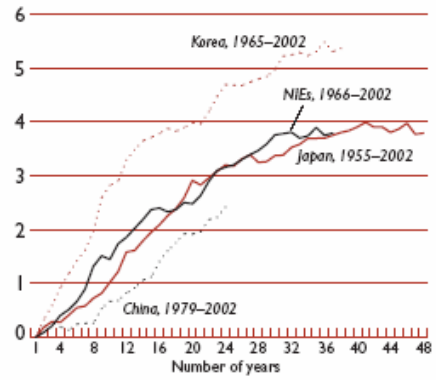
2. China's Economic Impact

Figure 2.1. Growth in Trade[1]
(Index, 1970 = 1)



Source: IMF, *Direction of Trade Statistics*.
[1]Based on the value of merchandise exports (f.o.b.) and imports (c.i.f.) in U.S. dollar terms.

Figure 2.3. Exports of Selected Economies[1]
(Index, beginning of period = 1; log scale)



Source: IMF, *Direction of Trade Statistics*.
[1]Annual exports in U.S. dollars deflated by the U.S. GDP deflator. Newly industrialized economies include Hong Kong SAR, Korea, Singapore, and Taiwan Province of China.

Morgan Stanley Global Economic Forum, October 1, 2004.

http://www.morganstanley.com/GEFdata/digests/20041001-fri.html

Global: China Meets the G-7

Stephen Roach (from Mumbai)

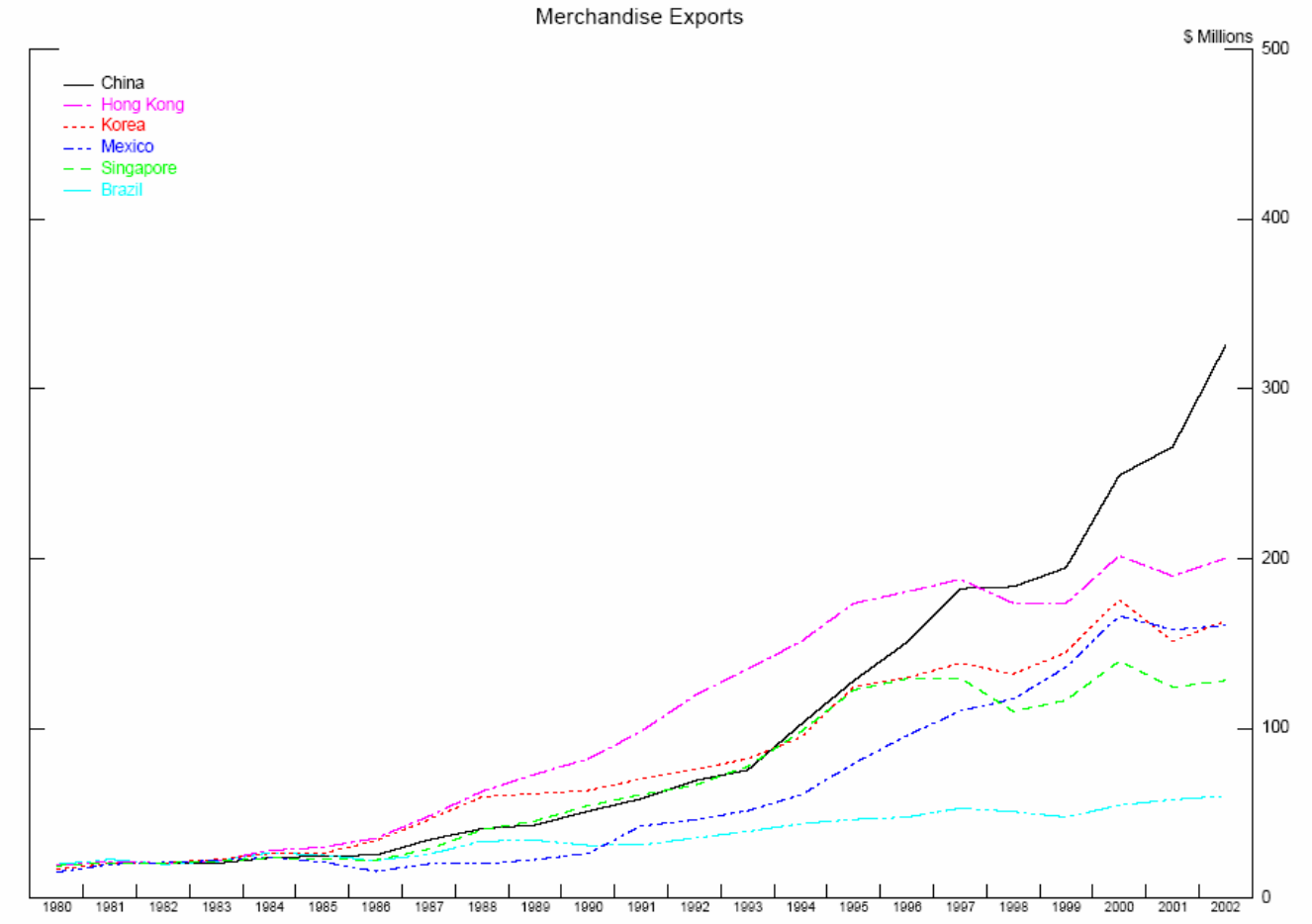
By inviting China to participate in the upcoming G-7 discussions in Washington, the club of rich nations is acknowledging something that the rest of Asia has known for a long time: The world is finally recognizing the existence of a renminbi bloc. The key question for the G-7 and Asia is whether China is up to the task in managing this new currency zone.

Make no mistake -- China is increasingly in the driver's seat of an externally-dependent Asian economy. It is the region's low-cost producer, with unmatched scale and scope and with a production platform endowed with the latest in new technology and supported by spectacular infrastructure. Economics tells us that low-cost producers are the dominant price setters at the margin. China increasingly plays that role in Asia. Countries that lose their competitive edge with China are doomed to loss of market share in an increasingly competitive global economy. Consequently, the rest of Asia -- including Japan -- has no choice other than to march to the beat of a super-competitive Chinese economy. To the extent that China maintains a fixed relationship between the RMB and the dollar, other Asian currencies give the appearance of having dollar pegs. In reality, however, this masks a much more important relationship -- the Asian-RMB peg.

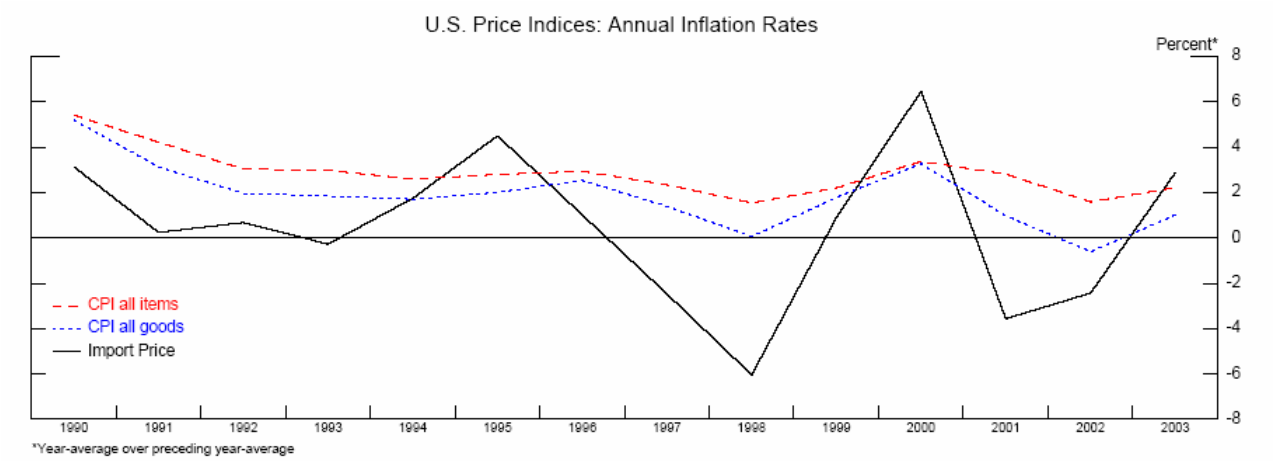
The RMB bloc encompasses a huge slice of the global economy. The pan-Asian segment makes up 34.1% of world output, as based on the IMF's purchasing-power-parity constructs -- only slightly less than the combined 37.0% share for the United States and Europe. At the same time, Asia currently makes up 25.3% of world exports by IMF metrics -- more than double the 11% portion of the United States but well below the 32% European share. China accounts for 37% of pan-Asian GDP and 21% of the region's total exports (on a PPP-basis). China's trade dynamic says it all: Over the past 20 years, China's share in global trade has risen from less than 1% to nearly 6% -- pushing the nation into the role as currently the fourth largest exporter in the world. Moreover, Chinese imports are exploding -- up fully 40% in 2003 and accelerating further to in excess of 50% in early 2004; this import explosion has turned China into an engine of growth for its Asian trading partners -- especially Japan, Korea, and Taiwan -- and into a key driver of global demand for many important industrial commodities such as oil, aluminum, steel, coal, iron, and cement. An increasingly powerful Chinese trade dynamic is reshaping the region and the broader global economy.

…

2.1 Is China exporting deflation?



Source: 'Is China "Exporting Deflation"?' by Steven B. Kamin, Mario Marazzi, and John W. Schindler, International Finance Discussion Papers No. 791, January 2004.



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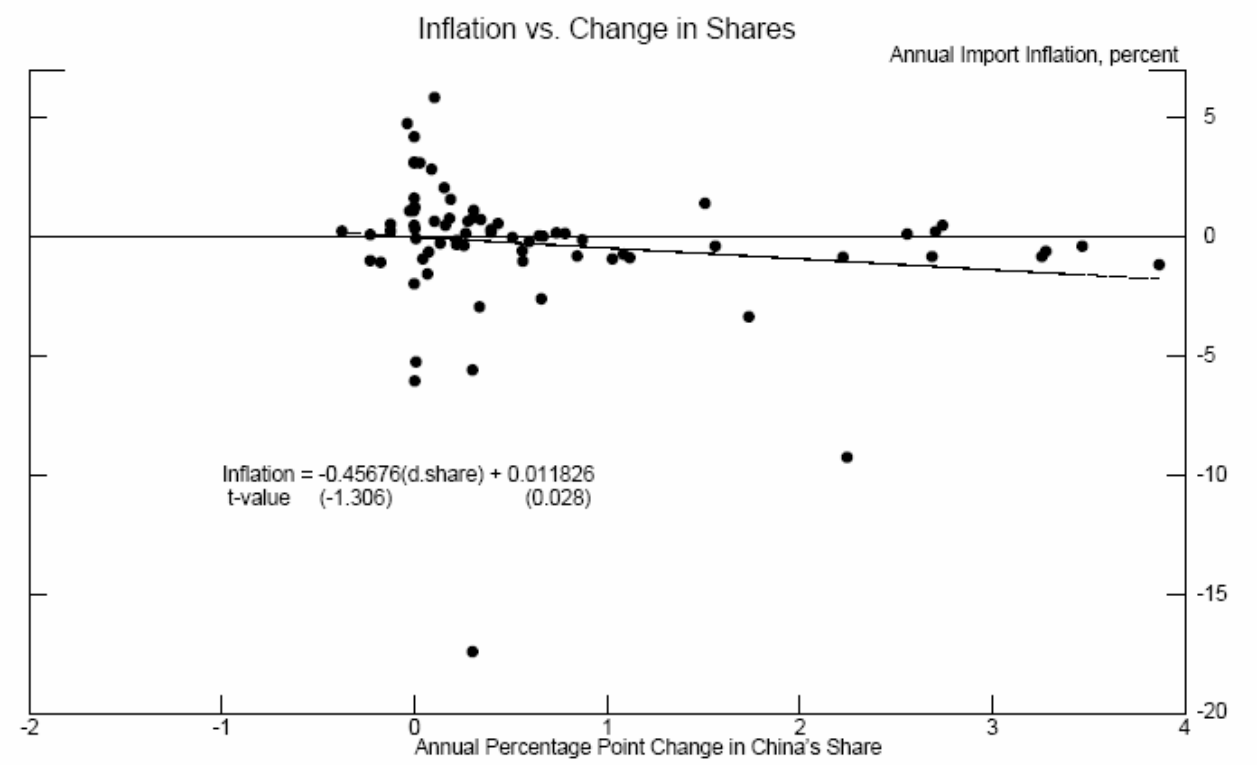

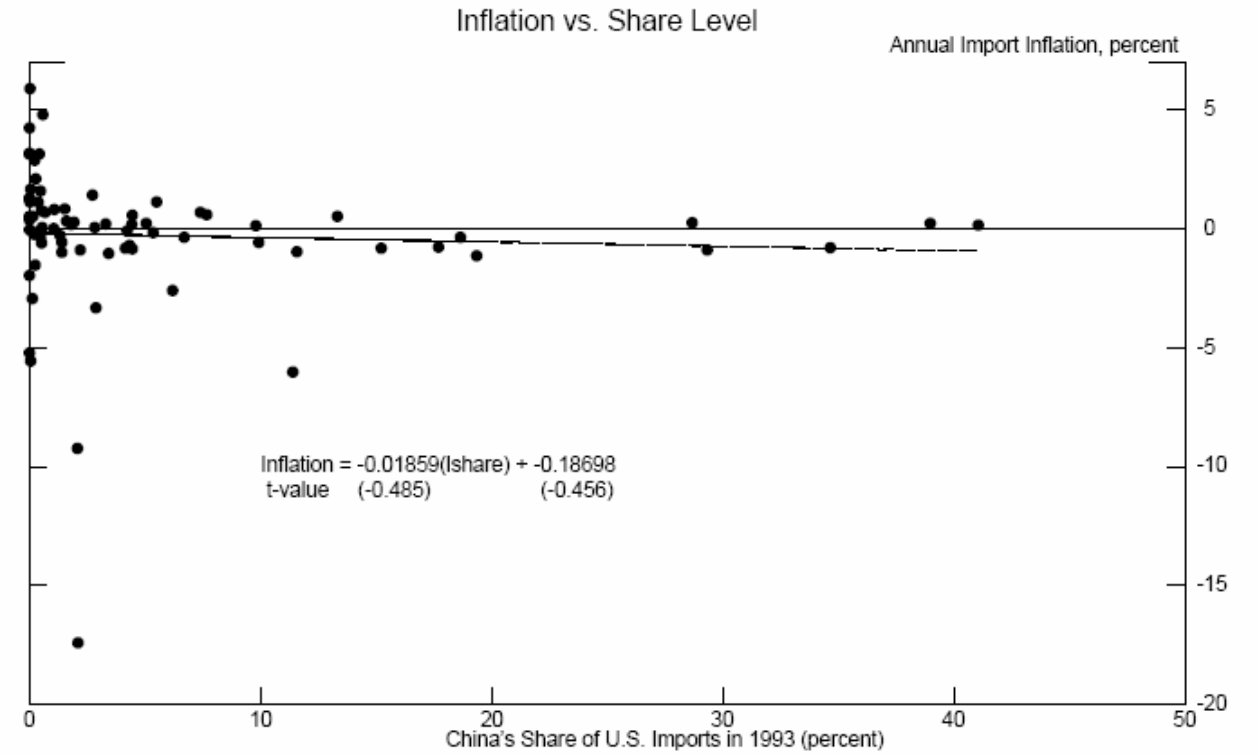

Source: 'Is China "Exporting Deflation"?' by Steven B. Kamin, Mario Marazzi, and John W. Schindler, International Finance Discussion Papers No. 791, January 2004.

"These results would suggest that imports from China have indeed depressed U.S. import price inflation to some extent. The estimated long-run impact of higher Chinese import shares on U.S. import inflation, based on equation (3), is about -1.3 (calculated as: -.791/[1 - .384]). Considering that the share of imports from China in total U.S. imports grew by an average rate of about 0.6 percentage point annually over the past decade, this coefficient suggests, as a back-of-the-envelope estimate, that imports from China might have depressed overall U.S. import inflation by about 0.8 percentage point annually. This represents a far from negligible impact on U.S. import prices, and moreover, prices in many sectors were likely affected to a considerably greater degree.16 Even so, with merchandise imports accounting for only about 11 percent of U.S. GDP and merchandise imports of consumer goods accounting for less than 10 percent of U.S. consumption, the direct effect of imports from China on U.S. consumer price inflation in recent years would likely have been quite small, on the order of 0.1 percentage point or less." ('Is China "Exporting Deflation"?' by Steven B. Kamin, Mario Marazzi, and John W. Schindler, International Finance Discussion Papers No. 791, January 2004).

2.2 Is China taking markets away from East Asia

Figure 1:
Exports from Greater China and from Developing Asia

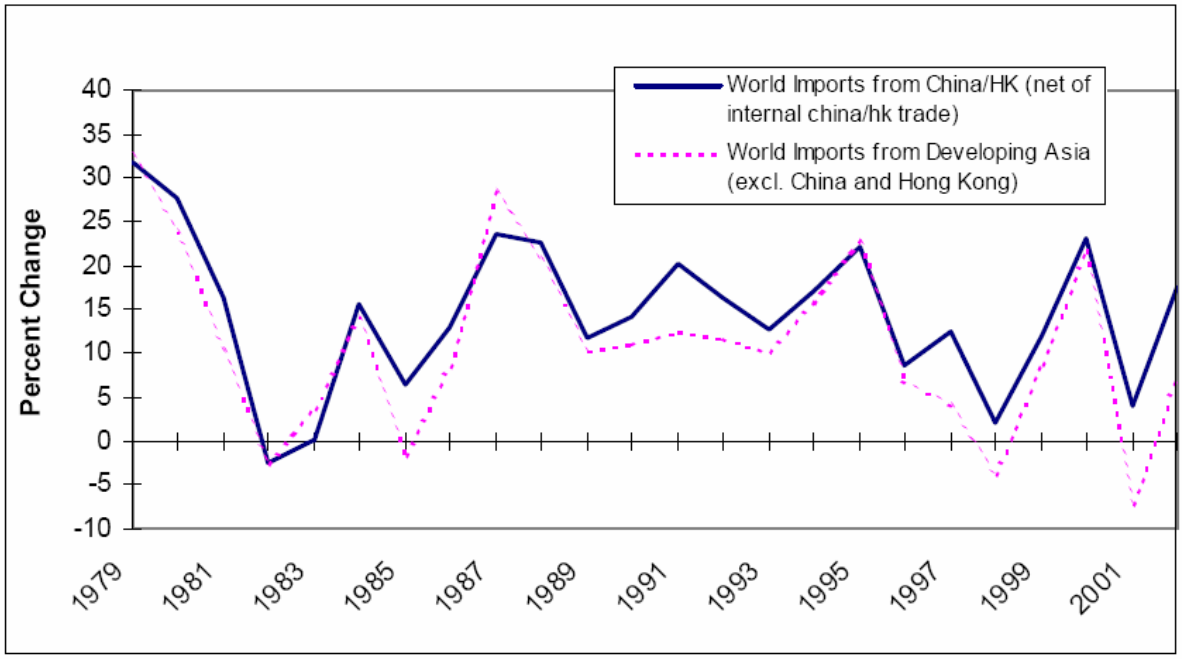

Table 4: Export Shares of Selected Asian Economies in the U.S. Market

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Economy	1989	1993	1996	1997	1998	1999	2000	2001	2002
China	**24**	**33**	**34**	**37**	**39**	**39**	**40**	**44**	**49**
China	13	25	29	31	34	35	36	40	45
HK	11	8	5	5	5	4	4	4	3
NIEs	**59**	**44**	**41**	**38**	**36**	**36**	**36**	**33**	**30**
Korea	22	14	13	12	11	13	15	14	13
Singapore	10	10	11	10	9	8	7	6	5
Taiwan	27	20	17	16	16	15	15	13	12
ASEAN-4	**17**	**23**	**25**	**25**	**25**	**25**	**24**	**23**	**21**
Indonesia	4	4	5	5	4	4	4	4	3
Malaysia	5	8	10	9	9	9	9	9	9
Philippines	3	4	5	5	6	5	5	4	4
Thailand	5	7	6	6	6	6	6	6	5
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Memo: Total , US $ (billions)	90	126	180	199	211	235	278	254	276

Source: Bureau of Economic Analysis.

Table 6
Export Shares of Selected Asian Economies in the U.S. Market:
Data for Industry 213 (Computers, Peripherals and Semiconductors)

	1989	1993	1996	1997	1998	1999	2000	2001	2002
China	**7**	**7**	**8**	**10**	**12**	**13**	**15**	**19**	**24**
China	0	3	6	7	9	11	13	17	23
HK	7	5	3	3	2	2	2	1	1
NIEs	**72**	**68**	**64**	**61**	**55**	**53**	**52**	**47**	**42**
Korea	21	16	18	16	13	17	18	13	12
Singapore	31	29	28	24	22	18	16	15	13
Taiwan	20	23	19	20	20	18	18	19	17
ASEAN-4	**21**	**25**	**27**	**29**	**33**	**33**	**33**	**34**	**34**
Indonesia	0	0	1	1	1	1	1	1	1
Malaysia	12	15	15	15	16	17	17	19	20
Philippines	4	4	6	8	10	10	10	10	9
Thailand	5	6	5	5	6	5	5	5	4
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Bureau of Economic Analysis.

“We find little evidence overall that increases in China’s exports reduce exports of other emerging Asian economies. Indeed, it appears that China’s exports and exports of the other economies are *positively* correlated. The correlation appears largely driven by common shocks—such as trading partner income—but even after controlling for the major sources of common shocks, the correlation remains weak but positive.

Nevertheless, when one looks at specific products, there is clearly considerable shifting of trade patterns taking place. It seems likely that these shifts require actual shifts in resource allocations, which can often be painful for those who lose out. From this perspective, China and emerging Asia are competitors. The appropriate policy response, however, would be to take steps to smooth the flow of resources across sectors.” (“China and emerging Asia: comrades or competitors?” by Alan Ahearne, John Fernald, Prakash Loungani and John Schindler, Chicago Fed Working Paper 2003-27, November 2003).