1. WTO Accession and Impacts

Box 2.1. Selected Aspects of China’s WTO Accession

**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.

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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. A more 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 that has 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 export 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 benefitting 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 more direct competitive threat to these economies in the future, the benefits from growing intra-industry 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 reform that will remove obstacles to foreign investment and further change China’s role as a global export base.

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Table 2.7. Tariffs

<table>
<thead>
<tr>
<th>Year</th>
<th>Unweighted Average</th>
<th>Weighted Average</th>
<th>Dispersion (SD)</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>55.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>43.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>42.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>44.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>42.9</td>
<td>40.6</td>
<td></td>
<td>220.0</td>
</tr>
<tr>
<td>1993</td>
<td>39.9</td>
<td>38.4</td>
<td>29.9</td>
<td>220.0</td>
</tr>
<tr>
<td>1994</td>
<td>36.3</td>
<td>35.5</td>
<td>27.9</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>35.2</td>
<td>26.8</td>
<td></td>
<td>220.0</td>
</tr>
<tr>
<td>1996</td>
<td>23.6</td>
<td>22.6</td>
<td>17.4</td>
<td>121.6</td>
</tr>
<tr>
<td>1997</td>
<td>17.6</td>
<td>16.0</td>
<td>13.0</td>
<td>121.6</td>
</tr>
<tr>
<td>1998</td>
<td>17.5</td>
<td>15.7</td>
<td>13.0</td>
<td>121.6</td>
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<tr>
<td>2000</td>
<td>16.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>15.3</td>
<td>9.1</td>
<td>12.1</td>
<td>121.6</td>
</tr>
<tr>
<td>2002</td>
<td>12.3</td>
<td>6.4</td>
<td>9.1</td>
<td>71.6</td>
</tr>
</tbody>
</table>

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 import rate for the relevant year. The weighted average is based on the import rates weighted by the value of imports in each category.
2. China’s Economic Impact

All graphs above from Rumbaugh, et al., IMF.

Source: Lum, Nanto, “China’s trade with the US and the world,” CRS (August 2006).
2.1 Is China exporting deflation? Is it exporting inflation?

“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.\textsuperscript{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, \textit{International Finance Discussion Papers} No. 791, January 2004).

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|c|}
\hline
\hline
Electrical Machinery & 26.4 & 35.3 & 50.7 & 55.9 & 73.3 & 104.0 & 142.1 \\
Machinery & 24.7 & 27.8 & 34.4 & 40.6 & 52.2 & 71.6 & 91.5 \\
Mineral Fuel, Oil, etc. & 6.7 & 8.9 & 20.7 & 17.5 & 19.3 & 29.3 & 48.0 \\
Optics, Medical, Instr. & 4.0 & 5.0 & 7.3 & 9.8 & 13.5 & 25.1 & 40.1 \\
Plastic & 10.5 & 11.6 & 14.5 & 15.3 & 17.4 & 21.0 & 28.0 \\
Organic Chemicals & 3.5 & 5.5 & 8.3 & 9.0 & 11.2 & 16.0 & 23.8 \\
Iron and Steel & 5.8 & 7.2 & 9.6 & 10.9 & 13.2 & 22.2 & 23.6 \\
Ores, Slag, Ash & 2.3 & 2.2 & 3.1 & 4.2 & 4.3 & 7.2 & 17.3 \\
Vehicles, Not Railway & 2.0 & 2.4 & 3.6 & 4.5 & 6.5 & 11.8 & 12.9 \\
Copper & Articles Thereof & 2.2 & 3.1 & 4.7 & 4.9 & 5.7 & 7.2 & 10.5 \\
Misc. Grain, Seeds, Fruit & 1.3 & 1.6 & 3.1 & 3.3 & 2.8 & 5.7 & 7.3 \\
Cotton and Yarn, Fabric & 2.6 & 2.4 & 2.8 & 2.9 & 3.3 & 4.7 & 6.9 \\
Wood & 2.0 & 2.9 & 3.7 & 3.5 & 4.1 & 4.6 & 5.2 \\
Misc. Chemical Products & 1.6 & 2.2 & 2.5 & 2.6 & 3.8 & 4.9 & 5.1 \\
Aircraft, Spacecraft & 3.2 & 3.2 & 2.2 & 4.4 & 4.1 & 4.5 & 4.9 \\
Paper, Paperboard & 3.6 & 4.0 & 4.0 & 3.6 & 4.1 & 4.4 & 4.6 \\
\hline
\end{tabular}
\caption{China’s Imports by Major Commodity, 1998-2004 (billions of dollars)}
\end{table}

Source: \textit{World Trade Atlas} using Chinese data.

2.2 What is the size of the US Bilateral Trade Deficit?

Figure 3. U.S. Exports, Imports, and Balance of Trade with China, 1983-2005

Source: Lum, Nanto, “China’s trade with the US and the world,” CRS (August 2006).

2.3 Is China taking markets away from East Asia?

Figure 2. Shares of Total U.S. Imports by Country and Country Group, 1990 and 2005

1990 ($491 billion) | 2005 ($1,662 billion)
---|---
China -- 3% | NICS -- 5.2%
ASEAN -- 5.5% | ASEAN -- 5.9%
Mexico -- 6% | Japan -- 8.3%
NICS -- 10.2% | Mexico -- 10.1%
Japan -- 19% | China -- 14.8%
Canada -- 18% | Canada -- 17.2%
Rest of World -- 16.3% | EU-15 -- 17.8%
EU-15 -- 20% | Rest of World -- 20.8%

Source: Lum, Nanto, “China’s trade with the US and the world,” CRS (August 2006).