WTO Accession and Chinese Economy: Impacts on Agriculture, Financial Sector, and State-owned Enterprises

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WTO Accession

- China has concluded the Fifteen years’ negotiation and becomes a full member of WTO on December 10, 2001
- The main spirits of WTO are to lower tariff rates, to eliminate quantitative restriction, and to give direct access to domestic markets
Dissentient Voice against WTO Accession in China

- Small peasants and inefficient SOEs
- Cold war mentality
Overall Judgement

• Long run--beneficial because of better access to foreign market, capital, technology, and competition pressure
• Short run--beneficial because of expected large inflow of FDI
• Medium run will be the real challenges. How large will the challenge to each sector, depending on whether it is an export sector or import sector.
Agreements on Agriculture

• Elimination of sanitary and phyto-sanitary barriers on U.S. exports of wheat, citrus and meat
• Elimination of export subsidies
• Liberalization of state trading companies’ monopoly
• Reduction of agriculture tariff to 14.5%-15%.
• Set up a tariff-rate quota system for grain
Agreements on Industrial Goods

- Elimination of all quotas and all quantitative restriction
- Reduction of overall tariff level from 22.1% to 17%.
- Lower automobile tariff from 80-100% to 25% by 2006
- The rights to import and export directly without Chinese middlemen
- The rights to market through distribution, wholesale, retail, and after sale service
Agreements on Telecommunication

• Rights to invest on ISP and ICP
• Allowing 49% investment on telecom upon date of accession and moving to 50% in the second year of accession
Agreements on Services, I

• Rights of foreign banks to conduct local currency business with Chinese enterprises two years after accession and to individual five years from accession
• Rights of foreign banks to setup branches
• Rights of minority JV financial institutions to underwrite domestic securities issues and underwrite trade in foreign securities
Agreements on Services, II

- Allowing foreign non-bank financial institutions to provide auto-financing from the date of accession
- Rights to provide full range of professional services, including law, accounting, tourism, transportation.
Gains of Chinese Economy

• Enhancement of foreign investors’ confidence and investment
• Facilitating the infusion of technology
• Increasing China’s exports
• Strengthening the position of reformers in China’s domestic politics
Challenges to Chinese Economy

• China needs to strengthen/setup modern domestic commerce and international trade systems.
• China’s needs to accelerate the reforms on SOEs.
• China needs to restructuring its financial sector.
• China’s economic development needs to follow more closely with her comparative advantages.
General Implications

• China will carry out those reforms even without accession to WTO

• China will be the most open, large developing economy. It’s huge domestic market will be fully accessible to foreign firms

• Business operation in China will base on Rule of Law