Analysis and Strategic Study of Advantages/Disadvantages of China's Entry into the WTO in Various Industries

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I. Agriculture

Advantages: First, WTO entry better for the consumers because imported wheat is of a higher gluten content and better quality than the low-gluten, softer wheat available on the domestic market. Second, it is good for China's export-oriented agricultural products such as aquatic products, fruits and vegetables and certain livestock products. Third, increased import volume of agricultural products that would normally use huge areas of land would help readjust the agricultural infrastructure in the more developed coastal areas that have a shortage of land resources. Fourth, it is better for pushing through reforms in China's grain distribution and circulation system.

Disadvantages: First, WTO entry would make it more difficult to achieve the plan of cutting down China's warehouse stockpile of grains by 200 billion kg through export; therefore, it is not good for maintaining our long-term stable grain production level. Under pressure from grain import, domestic grain production will come down and affect the revenues of the central western regions of China, which are traditional grain producing areas. According to studies by the United Nation's Food & Agricultural Organization (FAO), the grain prices on the international market have basically been in a downward spiral for the past 18 years, while the grain prices in China have been going up for much of that time. Presently, China's grain prices have become much higher than U.S. grain prices, giving U.S. corn and wheat a strong competitive edge over the same Chinese products. Secondly, 35% of China's grain production consists of so-called free-trading commercial grains, which amounts to approximately 16 to 18 thousand tons. Imports of grains from the United States, according to a bilateral agreement, would take up 20% of China's commercial grain consumption; too much import would jeopardize China's security. Thirdly, China's agriculture is predominantly composed of small-scaled farming. As farmers do not count labor costs when calculating farming costs, their income is what is left from agricultural surplus and the surplus after land leasing fees. The tiny scale of China's cottage industry farming where farmers lease an average of merely 0.4 hectare of land per family offers no competition to the larger U.S. farms.

II. Industry

Pharmaceutical industry. There is an immense future pharmaceutical market in China. In 1994, the pharmaceutical product market is a sizable US$9 billion, while the average consumption of medicine per head is $7, which is only 1.6% of that in Japan, 2.2% of France and 2.3% of the United States. There has been a sharp increase in imports of pharmaceutical products. In 1995, the import of $700 million of such products together with others that have been smuggled in accounts for 22% of China's domestic pharmaceutical market. In Beijing, imports take up 41% of the total market while joint-venture produced products take up another 18%. China's pharmaceutical products have been priced too high due to a system where "the medical facilities are fed financially by sales of pharmaceutical products." Seventy percent of the finances of China's hospitals are generated from sales income from medicines. Sales staff at the medical facilities aim for high commissions from more sales, which in turn encourage hospitals to turn to unnecessary, excessive use of expensive imported products in order to gain higher profits. In 1996, China had 1500 joint-venture pharmaceutical factories, after a $4.5 billion investment. With China's WTO entry, import tariff on pharmaceutical products will be reduced to 5.5% to 6.5%. There will also be more strictly enforced protection measures in intellectual property rights, and more severe compensation penalties for copy medicines, each of these copy products will yield about $400 million to $1 billion in penalty fees per year. That will force manufacturers to cease production of some of those products and reduce export volume. Production of high-end medical equipment will also be severely affected by imports.

Automobile industry. China's automobile market has always enjoyed government protection through high import tariffs. With WTO entry, China will have to cut automobile import duties to 25% by the year 2006, and the average import tax of spare parts will be reduced to 10%. The elimination of import quotas means the price of imported automobiles will go through an annual reduction of 4 - 6 % till 2006. After 2006, it will mean an even greater impact on China's automobile industry. The 100 plus automobile manufacturers in China will experience further mergers and restructuring. Sixteen automobile-related listed companies will go through a climax of regrouping and joint venture deals.

Paper manufacturing industry. China is the third largest manufacturer of paper and paperboard in the world, after the United States and Japan. The paper manufacturing enterprises in China are far too small in size--83% of the manufacturers only produce an annual volume of 5,000 tons of paper or less with very low production efficiency. The combined energy consumption level among China's paper manufacturers in 1994 is 1.94 tons of coal and 400 cubic meters of water for each ton of paper/paperboard, twice that of the international level. In addition, in China's paper manufacturing industry, 70% of the production is of medium or low-grade paper and there is heavy overstocking of such products. High quality printing paper production only accounts for 1% of the total output, making it necessary to import 630,000 tons of printing paper and 680,000 tons of high-intensity corrugated paper in 1996. In terms of raw materials, non-wood pulp materials take up 90% of the raw material total. But because of the serious shortage of timber and the enormous size of China's domestic market, import of raw materials already amounts to 25% of the total. The large number of newly formed joint venture enterprises has also forced many domestic companies to stop production completely or only maintain half of the production capacities, which means 40% of domestic enterprises are in deficit. In an effort to protect the environment, the authorities in 1996 started to phase out small paper manufacturers with an annual production below 5,000 tons, causing more than 4,000 factories to close down. The present import tariffs of paper products to China average 23.35%, and the WTO entry will reduce that to between 5 - 7%. All things taken into consideration, I believe China's paper manufacturing enterprises have no competitive power on the international market and need to be upgraded in their sizes.

Services & Trade

IT industry. China's telecommunication market has achieved a great degree of openness to the outside world. The field of digital switch is the earliest pioneer in using foreign investment. Currently, foreign funded production makes up almost 70% of that market. There are over 20 mobile communication joint-venture (JV) companies, taking up over 75% of the entire market. Most of the transmission equipment manufacturers on the optic fiber market are JV enterprises, while many of the equipments used in satellite communications, faxes and microwave communications are imported as finished products from abroad. Within six years, China will have to eliminate restrictions in the imports of pagers and mobile phones as well as regional restrictions on landline telephones. In the next four years, China is required to allow foreign investors to own up to 49% of the company stakes in all telecommunication fields, and up to 51% shares of some fields. The disappearance of import tariffs on telecommunication equipment including semi-conductors, computers and other peripheral equipment will seriously undermine the livelihood of domestic computer hardware manufacturers.

However, China's entry into WTO will further open up the telecommunications market and attract more domestic and foreign investors. The emergence of multiple markets will no doubt fuel strong competition, which will in turn improve quality, lower prices and stimulate demand. In this way China will rapidly become an IT society.

Finance industry. China's domestic financial institutions are facing enormous challenges. The state banks have to maintain their function as state-owned enterprises. However, as their non-performing loans become a bigger problem in the financial equation, these domestic banks present little competition against foreign banks. There are also too many non-qualified financial institutions in China, which themselves are sources of financial risk. For instance, insurance companies have tried to lure investment customers with high returns in the past few years and have now plunged into severe financial difficulties through the present financial deflation. With their already wrecked credit, insurance companies will find it hard to compete with foreign counterparts, so the temporary measure is not to open up life insurance business to foreign companies. The entry of multinational companies into China will center on financial services; therefore, only by opening up certain parts of the financial market will it bring in foreign companies and help build up their business strengths. Allowing foreign banks to use the Chinese currency, renminbi, will create difficulties for China's foreign currency management, as mistakes made by China's financial institutions might interfere with the normal business operation of the financial market. With entry into WTO, changing the renminbi into a convertible currency will be inevitable. Thus the impact in this aspect should not be underestimated.

However, we must recognize the inevitability of the liberalization of China's financial market. WTO entry will only speed up this process; therefore, the net effect [of WTO entry] will be positive. Also, China has been suffering from serious financial suppression and backward management, which have negatively impacted economic efficiency. For many years China kept its financial and foreign currency market closed, but many daunting financial problems nevertheless have accumulated. In microeconomic terms, I think that opening up China's market to a certain degree will help China improve the credibility and management capabilities of its financial institutions. In terms of macroeconomics, it will also push for more economic readjustment measures and bring China in line with the international society.