

What Are the Benefits of China's Entry into WTO?

By He Qinglian¹*

Excerpted from *We Are Still Watching the Stars Above*

On March 7, 2000, when a Swedish TV journalist interviewed me, the first question they asked was: why was China so eager to enter WTO?

My answer at the time sounded rather diplomatic: "It's not a one-sided request by China, but a desire by all parties, because we all have our own respective needs in--the so-called 'win-win' formula is not just empty talk." Personally I believe that the Chinese authorities wanted to join WTO more out of political, rather than economic, considerations. The world economic order and the developed countries' share of their main products on the world market are not going to be directly impacted by whether or not China is accepted into WTO. Let us think about the world economy in the form of a pyramid--at the very top is the IT industry where the United States is in an unchallenged number one position. The second tier is the finance industry where the United Kingdom is the main player (the finance industry alone contributes 10,000 pounds to UK's GDP per capita). The third tier is the manufacturing product industry (machinery for making machines), of which Germany is the main power, followed by countries such as Sweden with their considerable share of the market. The fourth tier is the market of high-quality, high technical intensity, end-user consumer products, which are predominantly Japanese. This four-tier market has been well carved out between developed countries and is relatively stable. The fifth tier of the world economy is that of labor-intensive, end-user consumer products, and it is for this high-risk market all developing countries are fiercely competing.

The consensus view is that entrance into WTO will open up China's market of 1.3 billion people. If you take into consideration the actual purchasing power of the Chinese people, you will realize that China's market cannot be defined by the number of people it has. For instance, I think the over-reaction in the U.S. textile industry is a result of fear of an imagined threat, because China's textile products on the world market merely provide alternative choices for middle to lower, especially lower, classes of consumers. In terms of technology, they offer hardly any competition against similar products made by countries such as the United States and Japan. As for the three main groups of more labor-intensive

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products produced by China's private, joint-venture and foreign-owned companies: clothes, toys and electronics, China already has a good share of the world market.

With this in mind, if you look at China more closely, you will find that the Chinese high-tech industry is not only weak but that foreign investment has long made strong inroads into the market. Take the telecommunications market for instance. Foreign brand names such as Ericsson, Motorola and Norkia already occupy a big chunk of the market, where consumers using "public funds" take up a high percentage. Apart from the natural expansion of the market, we must remember that much of the consumption growth is achieved through the same group of government-funded consumers upgrading their telephones. As for the automobile industry, this market is being divided between various foreign automobile manufacturers in the form of joint ventures with Chinese counterparts. To sum it up, after China enters WTO, the world economic order in general will only be slightly modified rather than immensely changed. If we only look at the potential profits, we know that from past experience, foreign investors will benefit far more from an emerging market like China than mature markets. This is a business secret that all multinational companies keep to themselves, but I believe they have all made their own calculations. So, instead of saying that China needs to join WTO, we might as well say that other countries need to enter this huge growing market.

It is obvious, though, that entrance into WTO will bring changes to China's agricultural scene. Anybody familiar with China's present situation will understand that the problem of "three nongs" (nong ye--agriculture, nong cun--countryside, and nong min--peasants) is the biggest stumbling block to China's future development. If we only look at costs and efficiency, we know that China's traditional agricultural method based on family units has no competitive power against the large-scale, highly modernized American agricultural system. Without strong protective policies, China's farming population will be on the brink of bankruptcy, much like the small farmers were during the 1920s and 1930s in Jiangsu and Zhejiang Provinces. On top of that, China's rural areas are already suffering at the hands of grass-roots officials "who have turned into bad guys and are chasing away good guys," and at the hands of peasants who themselves are slipping into "drifting hooligans." In such a state, China's rural population has no organized strength to think about, let alone deal with, the pending crisis.

While some say that China's entry into WTO will bring 10 million jobs to China, they have avoided another issue: more people would lose their jobs. At the present time, China's surplus labor force is not only in the sector of low-quality workers; there is also a surplus of trained professionals. I dare say that while big cities such as Shanghai, Beijing, Guangzhou, Shenzheng and other developed cities with their strong labor force and ample experience are prepared to make the best use of opportunities generated by China's entry into WTO, other less developed areas will not be able to benefit from it. Such a result will no doubt widen the gap between different areas.

As a result, the distance between those with knowledge and those without will further widen the gap between different groups of the population.

In recent years, China has begun to show problems in various aspects that resemble symptoms of Latin American countries--some call it "Latin Americanized Symptoms." Apart from resorting to high-pressure policies, the government has demonstrated a severe lack of competence in managing the country, which goes on to show that this is a failing nation. Under these circumstances, the benefits of China's entry into WTO are in reality more political than economic: the government expects it to help dissolve domestic social conflicts. However, I believe it will only serve to bring out all the problems that have so far been forcibly covered up.

China's reforms have always occurred as a result of "being forced by crisis." Only when cornered was the government willing to take reforms a step further. Take the economic structural reforms in the past 20 years, for instance. Due to the illusion of false growth figures, the government has mistakenly believed that it can indefinitely delay reforms in the political system. But once China is accepted into WTO, and the world economy does not operate according to China's "little game rules" but in accordance with the internationally agreed "game rules," then the Chinese government will be forced into the grips of various strong conflicts. It will have to operate as a somewhat "soft regime," and will sooner or later feel politically cornered again. This is the main reason I believe China should enter into WTO.