Comprehensive index starts
in volume 5, page 2667.

World Trade Organization

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China joined the World Trade Organization in 2001 after years of negotiation. The country had been keen to join the WTO given that China's economy is now highly dependent on foreign resources and markets. Joining the WTO is also a mechanism for forcing change on outdated state-owned enterprises in China.

China joined the World Trade Organization (WTO) on 11 December 2001 after years of vigorous lobbying for membership. The WTO is an international organization devoted to the reduction of trade barriers across the globe, with a view that free trade means greater overall benefit for all parties concerned. While not everyone agrees with this premise, it is widely accepted, especially in the major global economies. With the dramatic growth in international trade since World War II, the WTO is the organization primarily responsible for supporting such growth, reducing trade barriers, and helping to regulate the growth. In effect it provides the structure within which international trade can take place efficiently. As of July 2008, 153 countries were members of the WTO.

Chinese officials realized that, to make their economy grow rapidly, they needed access to foreign investment for building up industries quickly and to international markets for selling the products of these industries. In this respect joining the WTO was a logical extension of China's decision, taken in the late 1970s, to create a capitalist economy. These officials were aware that if they did not shift their economic structure away from Communism they could not modernize and regain the power they had lost during years of political and economic chaos.

China's Economy—1912–1979

China had been a great power through most of recorded history, though by the early nineteenth century the Manchu-ruled Qing dynasty (1644–1912) was beginning to fail. In the nineteenth century China failed to modernize and fell prey to Western countries that established enclaves along the East coast of China. In 1911 the Republic of China was founded, the dynasty fell (although the Qing emperor did not abdicate until 1912), and the next fifty years were characterized by political and economic chaos. Out of this chaos the Communist Party finally consolidated power in 1949 and proclaimed the creation of the People's Republic of China.

Unfortunately, China's economic policies were not effective. The Great Leap Forward of the 1950s was an attempt to rapidly catch up with the West. It was a dismal failure and led to widespread famine in China as well as the political upheaval of the Cultural Revolution (1966–1976). Mao's death in 1976 signaled the end of unworkable economic policies and the beginning of a shift to capitalism under the leadership of Deng Xiao Ping

WTO History

The WTO has a long pedigree, even though its name dates only from 1 January 1995. The organization actually began to evolve toward the end of World War II, when world leaders acknowledged they needed an economic system to replace the insularity that had led to the Great Depression of the 1930s: When major economies had faced difficulties, they turned inward with a "beggar thy neighbor" policy, imposing high tariffs, or taxes, on foreign goods to protect domestic agriculture and industry; in reality, however, they only spread and prolonged the Depression.

This situation led to the 1944 Bretton Woods Conference, at which forty-four countries produced key imperatives for postwar global economic development. Most of these Bretton Woods instruments still exist today—for example, the World Bank and the International Monetary Fund. A few years later another international meeting created the General Agreement on Tariffs and Trade (GATT), the forerunner of the WTO. GATT was rooted in compromise: On the one hand was an understanding that countries often must protect particular industries for the national good (as long as tariffs are applied multilaterally—that is, as long as there are no preferential tariffs); and on the other hand was broad support for an open trading system that would both stimulate free trade, thereby ensuring the greatest possible level of economic growth, and link economies. The underlying assumption was the belief that greater economic cooperation would mean greater political cooperation and reduce the possibility of war. The memory of Nazi Germany was strong—an insular country and economic depression had created the conditions for the rise of a totalitarian government, resulting in a terrible world war—and the signatories to the Bretton Woods agreement and GATT wanted to reduce the chances that such a government would surface again.

The Bretton Woods agreement and GATT created the conditions for the longest sustained economic boom in world history, one that lasted from the mid-1940s to the early 1970s. The members of GATT met regularly from 1948 to 1994 (eight rounds in total), in different cities. The last round of GATT talks took place in Uruguay from 1986 to 1994; at the conclusion of this round, the members decided to replace GATT by creating the WTO, essentially a more formal structure for international trade.

China and International Trade

China has the key ingredients for economic success on the international stage—a large population that includes substantial numbers of well-educated people; a reasonably good infrastructure; relatively high levels of technology, at least in the main cities; and, above all, low-cost labor. To take advantage of these factors, as well as to gain foreign access to one of the world's biggest markets, foreign investment poured into China in the 1990s, and the result was dramatic economic growth for the country.

It came as no surprise, therefore, that the Chinese government was eager to join the WTO. Joining would ensure access to world markets, especially to the markets of developed countries with so many wealthy consumers—and, therefore, would keep the economy of China booming.

The fundamental reality was that China needed international connections in order to continue rapid economic growth. Only one other country—Japan—similarly depended on international markets, and it was Japan that sponsored China's entry into the WTO. The main opposition came from the United States. In part this resistance stemmed from competitiveness: The United States was wary of letting China become too strong. In part the resistance was a matter of philosophical differences: The United States questioned whether China's political system should be supported given its view on human rights. But the major U.S. resistance concerned intellectual property. Increasingly the U.S. economy depends on its ability to create and innovate, especially in areas such as software development, biotechnology, medicine, and entertainment. After years of American research and development expenses, Chinese companies have demonstrated a predilection to copy these products, to sell them far below the cost of the American products, and to pocket the profits. Hence charges of intellectual copyright violations, or piracy as it is more commonly called, delayed China's entry into the WTO.

On the other side of the coin, the U.S. economy greatly benefited from China's entry into the WTO. One reason the American economy grew so quickly in the first years of the twenty-first century was that the flow of low-cost Chinese products into the U.S. market allowed American consumers to pay less for some products so that they could theoretically save money or spend more domestically, thereby stimulating the U.S. retail sector. Trading with China also allowed U.S. industries to source lower-cost parts. Moreover, a good number of the factories in China resulted from U.S.-China joint ventures, so the exports were actually made in part by American companies, and some of the profits from the ventures went back to the parent companies in the United States. Finally, China has replaced Japan as the greatest purchaser of U.S. Treasury Bonds, thus allowing the U.S. government to operate at a deficit while avoiding tax increases.

The WTO and Domestic Problems in China

Not all sectors of the Chinese economy benefited right away from this open trading system. One of the main victims was the state sector—state-owned enterprises, or SOEs. These large, usually inefficient producers resisted China's entry to the WTO. But it is clear that the Chinese government used the mechanism of joining the WTO to force the SOEs to change. SOEs had to initiate more efficient management, shed surplus labor and institute more effective production processes. Without this external pressure it would have been politically difficult to carry out domestic economic reform. One advantage of an authoritarian government is its power to initiate more painful economic adjustments than a democracy. That said, it is by no means easy to move China's economy into the modern era, and there have been, and continue to be, many pressures in China, such as unemployment and price increases, working against the rapid pace of economic change.

China also faces the emerging issue of becoming Asia's workshop for only less sophisticated products instead of moving up to high technology exports. This is in part because its exports are dominated by foreign companies (Wholly Foreign Owned Enterprises, or WFOEs, are permitted to register in China in cases where at least half their annual output is exported). Indeed, approximately 60 percent of China's exports overall and 80 percent of its high-tech exports, are produced by foreign companies, which are not eager to share the secrets of their success with the Chinese.

Other Challenges for the WTO and China

One of the fundamental challenges for the WTO is to address the domestic interests of its participating countries yet promote multilateral trade. For example, in Country A local representatives may not favor free trade for fear that foreign companies with lower production costs will export lower-priced versions of Country A's products to Country A, putting companies in the politicians' districts out of business. Of course, if companies in Country A are very efficient and can compete on the international scene, its politicians may support free trade. But in that case Country B's government may balk at importing products from Country A. Clearly, both political and economic factors influence international trade, making the job of the WTO complex. Demands for "level playing fields" and "free and fair" trade along with direct and indirect subsidies to producers bring the concept of free trade into question, yet it is the role of the WTO to deal with these issues and to promote the growth of international trade.

The state of a country's economy affects whether or not it wants to join the WTO. Typically a country that produces commodities inefficiently or faces many international competitors that produce the same commodities, would not support an open trading system. National prestige also affects a country's interest in the WTO. For example, the automobile industry can confer pride, even when that industry can exist only behind high tariffs—as in Australia and Malaysia. The Chinese automobile industry is posing a substantial challenge to these long-standing barriers. As barriers to trade come down the Chinese car industry will certainly be a major player in the international market. In Malaysia's case, if it dropped tariffs then Malaysia's car industry would certain have major problems.

Most countries face yet another challenge when opening their economies to international trade. There are winners and losers in any free-trading system. Inefficient producers will see their businesses fail while efficient ones will thrive. This so-called structural adjustment can produce substantial pain as the changes take place. Workers may have to retrain and move to other economic sectors, but doing so is much easier for some (generally the younger and better educated) than for others. Hence, free trade will be more welcomed by some sectors of the community than others in any particular country, and these divisions are clearly apparent in China. There is a clear employment/wealth gap between younger, more educated Chinese and older, less educated Chinese.

A concept underpinning open trade is comparative advantage. In short this means that each country will produce the goods that it is most efficient at producing. Inefficient producers will go under, and, painful though failure is, the result will be a more efficient global production system, which will, in turn, generate the highest overall global output. The argument put forward by the WTO is that there is a net gain, even though there will be losses in sectors in each country.

The charge leveled by some countries, including China, is that they are the victims of more powerful countries, typically developed countries, that have much greater resources, including a highly educated workforce, well-developed transportation and communication systems, and existing multinational companies. Therefore, meetings of the WTO often incite demonstrations, reflecting for the most part the voice of the developing world. One of the most visible anti-WTO riots took place in Seattle, Washington, on 30 November 1999.

The WTO is faced with a massive challenge—supporting free trade across the globe. The differing interests of different countries and the multiple interest groups in each country make this goal very difficult to achieve. In fact, the WTO is having problems that are reflected in the rapid growth in Free Trade Agreements (FTAs) over the past decade. Countries that strongly favor free trade are not prepared to wait for the WTO to accept them; they are striking out on their own. While this approach does promote free trade in part, it leaves behind those countries that desire a slower entry into the global trading system.

China is an important part of the global economy. It has the fourth largest economy in the world, a growth rate of about 10 percent, the world's largest current account surplus ($180 billion). It is therefore one of the great challenges of the WTO to help manage China's global trade.

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World War II in Asia ▶