

CHINA'S ACCESSION TO WORLD TRADE ORGANIZATION (WTO) AND ITS IMPACT ON ITS SOCIALIST / COMMUNIST ECONOMY

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The concept of globalization is basically about economic interdependence among sovereign nations. It has resulted from the emergence of various international and regional organizations for promoting economic partnerships to promote economic development and growth. This modern trend has raised a very important question about the prospects of different ideologies, and particularly about the socialist ideology.

The People's Republic of China has been one of the major bulwarks against the ideology of capitalism. After the fall of the Soviet Union, China represents the sum total of communist power on earth. The modern concept of market economy and free market is a capitalist approach. One wonders how the Chinese Socialist ideology is going to cope with the changing scenario, since China is eager to compete with other developed nations in the economic field and is on the threshold of joining World Trade Organization (WTO).

The purpose of this paper is to analyze, what would be the impact on the Chinese Socialist economy, after the Chinese accession to World Trade Organization (WTO).

To examine the issue in its historical perspective, it would be pertinent to begin by making a reference to the origin of socialism. Karl Marx (1818-1883) was a utopian thinker, but in a different way from Plato or Bacon. Marx's utopian predecessors began with elaborate descriptions of their paradises; if they engaged in social criticism, most of their criticisms were implicit rather than explicit. Marx, by contrast, began with an extremely explicit criticism of existing society and sketched only the broadest

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outlines of his utopia. He thought of himself as a hardheaded realist, not a starry-eyed dreamer. He considered his world view to be the product of a correct empirical understanding of historical and socioeconomic reality.ⁱ

Marx's attack on economic inequality was influenced by the harsh working conditions and widespread suffering associated with capitalism in the mid-nineteenth century. The wealthy commercial and industrial elites (the "bourgeois capitalist" class) opposed reforms aimed at improving the living conditions of the impoverished working class (the "proletariat"). Marx's *Das Capital* is punctuated with vivid descriptions of employment practices that aroused his anger, such as the following:

Mary Ann Walkley had worked without intermission for 26 ½ hours, with 60 other girls, 30 in one room, that only afforded 1/3 of the cubic feet of air required for them...Mary Anne Walkley fell ill on Friday [and] died on Sunday.... The doctor, Mr. Keys called in too late to the death-bed, duly bore witness before the coroner's jury that "Mary Anne Walkley had died from long hours of work in an overcrowded workroom"ⁱⁱⁱ

To Marx, the deaths of Mary Anne Walkley and others like her were not mere accidents. He believed that economics – the production and distribution of material necessities – was the ultimate determinant of human life and that, historically, human societies rose and fell according to the inexorable dynamic of economic forces.

Marx believed the following ten points are necessary to enforce socialism / communism.

1. The abolition of property based on land, together with the rents derived from land for private purposes.
2. A heavy and progressive policy of taxation.
3. Abolition of the rights of inheritance.
4. Confiscation of the property of those who either leave or refuse to accept the new order.
5. The setting up of national banks with a monopoly of credit.

6. The national ownership of all forms of communication and transport.
7. The gradual take-over of all means of production by the new order.
8. The enforcement of the equal liability of all of work, particularly in agriculture.
9. A gradual elimination of the differences between town and country and closer connection between agriculture and industry.
10. The establishment of a free system of universal public education.

China's Economic Condition Prior To Deng Xio Ping

Economics was the touchstone of the Chinese revolution. According to Karl Marx economic determines not only the government but also every thing else. As a new nation, industrialization was a major priority for Mao Tse Tung, the supreme leader of China's Communist Movement, though the economy of traditional China was grounded in agriculture and in the individual peasant families who were the heart of the rural economy.ⁱⁱⁱ In the early 1950s, the People's Republic of China was heavily dependent on political, economic and military assistance from the Soviet Union, a dependency heightened by the Korean War (1950-1953).

The U.S.S.R., ruled by Stalin, insisted that the fledgling Communist Government in Beijing follow the Stalinist model. Thus the trust of Chinese policy in the field of economy and foreign policy closely resembled those of the Soviet Union. The adaptation and for most of the time the adoption of the Soviet model meant a fundamental transformation of the pattern of ownership in the Chinese economy, with the means of production transferred from private hands to public or collective ownership through a continuous series of mass movement in the mid 1950s. Moreover socialism / communism also required this change in economic system.

After the collectivization of agriculture and the nationalization of industry the Chinese economy was, governed by a system of mandatory central planning thus intensifying the tendencies toward state control over economy. Though the process of central planning was always incomplete and imperfect, it regulated the distribution of capital goods, the allocation of investment and the utilization of labor more tightly than was true in most other Soviet block countries.^{iv}

A further characteristic of the Soviet model was a high rate of investment, allocated to ministries and enterprises through a system of state grants. State control over wages and prices ensured that industrial enterprises enjoyed high profits, which were then transferred directly to the central state treasury to fund new investment. Similarly the state's ability to procure necessary agricultural products at administered prices enables it to extract large amount of resources from rural areas at low cost. The effort was to enforce high levels of mandatory savings, amounting to an average of 24.2 percent of national output during the First-Five-Year Plan (1953-1957).^v

But these vast sums of investment capital were then distributed to enterprises as a government grant, without expectation that either interest or principal would ever be repaid. The lack of economic discipline in the allocation of investment permitted long period of construction, low efficiency in the use of equipment and investment decision on the basis of political rather than economic criteria within only a few years time many Chinese leaders had become uneasy with what they regarded as serious shortcomings in the Soviet model. By the middle of 1957, therefore, Mao had concluded that it would be necessary to move in the opposite direction, tightening political controls over both the economy, society and resurrecting the utopian elements in the Marxist-Leninist heritage.

As a result Mao attempted to introduce more egalitarian elements in the Soviet economic model, adopted by China:

- In economics, Mao stressed egalitarianism – a principle that he believed had been honored in theory but ignored in practice in the course of economic development in the Soviet Union. Mao and his

followers disdained the use of material incentives to stimulate more productive or efficient labor.

- Mao's egalitarianism extended to the allocation of tasks, as well as to the distribution of rewards. Mao was contemptuous of the concepts of specialization and comparative advantage, whether applied to people or to geographic regions. Instead, he favored the notion that every sector of society should be engaged in the same set of economic activities as all the others.

Deng Xio Ping's Reforms

No account of the course of reform in the post Mao era would be complete without a reference to the vital role played by Deng Xio Ping. When Deng Xio Ping came to power, he was highly critical of the country's economic situation, saying it had stagnated under the Gang of Four under Mao. Deng had long enjoyed a reputation as a leader who supported the expansion of private plots and free markets to increase agricultural production. His off-quoted statement, "No matter whether the cat is black or white, if it catches mice, it's a good cat," summarized an underlying realism and flexibility in Deng's approach to economic policy.^{vi} By the time of Mao's death, Deng had become a man with a mission to launch a fundamental restructuring of the Chinese political and economic order. In political realm, he sought to resolve China's political crisis by repudiating the Cultural Revolution. He wanted to relax the party's controls over social and political life.

In economics, Deng was strongly committed to a more broad and sustained interaction with the rest of the world, particularly the west, as a way of overcoming China's backwardness and keeping the development process. As a result of this strategy during the early 1980s, Deng Xio Ping's budget preferences favored economic development and the pace of military modernization was slow.^{vii}

In December 1978, Deng reintroduced the Four Modernizations with much fanfare, and added to them a sweeping reform of the planning and management systems in industry and agriculture.

The original order of the modernization was as following:

- First industry, with heavy industry receiving priority over light industry.
- Second was agriculture:
- Third, Science and technology: and
- Fourth national defense.

By March 1979, the order had been changed to put agriculture first, followed by light and then heavy industry. The priorities of Science and technology and defense remained third and fourth respectively.

The reform program had four major objectives:

- Instituting a contract responsibility system in agricultural areas;
- Reviving individual business in urban area;
- Decentralizing a substantial amount of authority to state enterprises;
- Reforming the irrational price system.^{viii}

World Trade Organization (WTO) & Its Functions

The World Trade Organization came into being in 1995. One of the youngest of the international organizations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War.

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their

business. So while the WTO is still young, the multilateral trading system that was originally set up under GATT is already 50 years old. The system celebrated its golden jubilee in Geneva on 19 May 1998, with many heads of state and government leaders attending. The past 50 years have seen an exceptional growth in world trade. Merchandise exports grew on average by 6% annually. Total trade in 1997 was 14-times the level of 1950.^{ix}

The Structure

The WTO has more than 130 members, accounting for over 90% of world trade. Over 30 others are negotiating membership. Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments. The WTO's top-level decision-making body is the Ministerial Conference, which meets at least once every two years.

Below this is the General Council (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals), which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body. At the next level, Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements.

The Functions

The WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably. It does this by:

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes
- Reviewing national trade policies

- Assisting developing countries in trade policy issues, through technical assistance and training programmes.
- Cooperating with other international organizations.^x

DEVELOPING COUNTRIES

Development and Trade

Over three quarters of WTO members are developing or least-developed countries. Special WTO agreements include longer time periods for implementing agreements and commitments, measures to increase trading opportunities for these countries, provisions requiring all WTO members to safeguard the trade interests of developing countries, and support to help developing countries build the infrastructure for WTO work, handle disputes, and implement technical standards.

Technical Assistance and Training

The WTO organizes around 100 technical cooperation missions to developing countries annually. It holds on average three-trade policy courses each year in Geneva for government officials. Regional seminars are held regularly in all regions of the world with a special emphasis on African countries.

Chinese Agreement with member states of WTO

The US – China WTO Agreement

The U. S. and Chinese officials reached a bilateral agreement relating to China's WTO bid on November 15, 1999. The agreement would commit China to reduce tariffs and remove non-tariff barriers (some on accession and others over specified phase-in periods). The full text of the agreement was released by the former Clinton Administration on March 14, 2000. Some of the major commitments, China has agreed to include the following:

1. Provide full trading and distribution rights (including the ability to provide services auxiliary to distribution) for US firms in China. Cut average tariffs on agricultural products from an overall average of 22% to 17.5%; tariffs for US priority agricultural products (such as beef, grapes, wine, cheese, poultry, and pork) would fall from 31% to 14%. Overall industrial tariffs would fall from an average of 13.3% to zero.
2. Establish a tariff-rate quota system for imports of agricultural bulk commodities such as wheat, corn, cotton, barley and rice), i.e. imports up to a specified quota level would be assessed at low tariff (1-3%), while imports above a certain level would be assessed at much higher tariff rate. In addition, private trade in agricultural products would be permitted for the first time.
3. Phase out quotas and other quantitative restrictions (some upon accession, many within two years).
4. Eliminate unscientifically based sanitary and restrictions on agricultural products, end export subsidies, and reduce subsidies.
5. Open service sectors, including distribution, insurance, value-added telecommunications, banking, securities and professional services. China would expand (over various transitional periods) the scope of allowed services and gradually remove geographical restrictions on Foreign Service providers. The amount of permitted foreign ownership in service industries would vary (and in some cases expand over time) from sector to sector.
6. Reduce restrictions on auto trade. Tariffs on autos would fall from 80-100% to 25% (tariffs on auto parts reduced to an average rate of 10%) by 2006. Auto quotas would be

eliminated by 2005. US financial firms would be allowed to provide financing for the purchase of cars in China.

7. Remove various restrictions on foreign investors / investments in China, including technology transfer, local content, and export performance requirement.
8. Accept the use by the United States of certain safeguard, countervailing, and antidumping provisions (over transitory periods) to respond to possible import surges of various products from China, such as textiles, that might cause, or threaten to cause, market distribution to a U.S. industry.

The EU-China Agreement

One of the equally major hurdles on China's route to the World Trade Organization (WTO) was successfully overcome when China and the European Union signed an agreement on 19th May 2000. The Agreement was signed by Chinese Foreign Trade Minister Shi Guangshing and European Union Trade Commissioner Pascal Lamy. This agreement is considered as extremely important not only for China and European Union but for the entire world, since EU - the world's largest trade block, accounting for 40 per cent of world trade.

The importance of this agreement can be judged from the fact that EU is China's third biggest trade partner. China ranks fourth in EU foreign trade. Bilateral trade hit US\$55.68 billion last year, Chinese customers statistics indicated. In the first quarter of the year 2000, China-EU trade soared 32.2 per cent to US\$14.83 billion.^{xi}

The agreement reached on the principles of equality, friendship and mutual benefit, will inject new vigor into China-EU relations, Shi said.

It has benefits for EU companies and China, providing a boost to China's reform process and helping the transition to a market economy, Lamy said at the signing ceremony. It would not be out of context to mention here

that at the time Mr. Lamy was uttering these words, Mr. Shi, Chinese Foreign Trade Minister was very much present on that occasion. The following are the main features of the Agreement:^{xii}

GOODS

Tariff Concessions

Industrial Goods

- Average tariff falls from current 18.6% to 10.6% on 150 specific goods.
- 52 types of machinery and appliances that account for 26% of total EU exports: 35% to 5-10%.
- Cosmetics: 30% to 10%.
- 13 products that account for 60% of EU exports of leather goods. 20-25% to 10%.
- 5 products that account for 70% of EU exports of footwear. 25% to 10%.
- 5 major categories of exports of marble / building stones: 25% to 10%.
- 11 key product categories of ceramics: 24.5-35% to 10-15%.

Textiles: China's current tariff is close to that of EU on China's exports.

Agricultural Products:

- All spirits subject to same treatment: 65% to 14%
- Wine: 65% to 14%.
- Butter: 30% to 10%
- Milk powder: 25% to 10%
- Mandarins: 40% to 12%
- Olives: 25% to 10%
- Pasta: 25% to 15%

- Rape Oil: 85% to 9%
- Wheat gluten: 30% to 18%.

SERVICES

Market Access

Telecommunications:

- Opening of the Beijing-Shanghai-Guangzhou intercity market
- Liberalization of domestic-leased circuit services
- Increased competition in the provision of international corporate communications

Insurance: Scope of business expanded within 2 years to allow: health, pension and group in life insurance and all non-life activities except for statutory insurance.

- Brokers allowed undertaking large-scale commercial risk and reinsurance.

Banking: Zhuhai banks to be allowed accelerated access to local-currency market.

- Distributors and other non-financial institutions will be able to provide credit for trucks, tractors, and motorcycles.

Tourism: Open to foreign firms after accession

- Scope of travel agency services extended to allow corporate travel services.

Legal: Authorization to provide services in Chinese law

- Foreign lawyers will be allowed to instruct directly individual members of Chinese law firms.
- Reduction of experience.
- Requirement for local manager to 2 from 3 years; prior experience will no longer have to be consecutive.
- Solicitors (though not members of any Bar) will also be covered by the Agreement.

INVESTMENT-RELATED MEASURES

Market Access

Motor Vehicles

- Within 2 years, freedom to determine product range
- Reduction of red tape, as provincial authorities will be empowered to authorize investments in the sector worth up to \$150 million (currently \$30 million).
- Wholly foreign-owned enterprises allowed in engine manufacturing

Telecommunications:

Foreign investment in local mobile operators:

- Upon accession: up to 25%
- Within 1 year of accession: up to 35%
- Within 3 years of accession: 49%

3. Attainment of period of maturity as attached with the different provisions of agreements signed or would be signed with different member states of WTO.
4. Bureaucratic response to foreign investors especially to the investors coming from United States of America, Australia and European Union.
5. Consumer behavior in terms of buying ability / purchasing power on the part of Chinese consumers, present position is that purchasing power of Chinese consumer is weak.
6. There are hardly any political reforms in China, which is perhaps badly needed and more so in the context of Chinese accession to WTO. There are still hardliners in communist party and China till to date is having a system of single party. In case of intra-party coup d'e-tat, which is quite common in communist parties, there is every likelihood of outright rejection of accession to WTO or if coup comrades happened to be a little polite and diplomatic in that case uncalled for or frequent use of article XIX, a safeguard clause provided, very much with in the scheme of WTO.
7. Quarrel over intellectual property right, which otherwise sounds North dictation over South.

Eleventh Chinese Communist Party Congress held in 1978 and fourteenth in 1992 are indication of a definite change in the wind given the fact when words like globalization, economic integration, liberalization, modern socialism and socialist market economy was common used phrase, and these developments if seen in the famous saying of Hegel that "an age is determined by its Zeitgeist",. Free market economy (capitalism), democracy, rule of law, freedom of press and human right are certainly the zeitgeist of our time. It seems that China is all set not to go in the opposite direction of zeitgeist in coming decades.

CONCLUSION

Looking at the few leading agreements signed by the People's Republic of China, in order to achieve accession to WTO, it is demonstratively visible that China would no longer retain communist or socialist characteristics. As a matter of fact WTO or no WTO, the process of market economy had started gaining grounds from the days of Deng Xio Ping, whose reforms, ensured freeing up prices, abolishing virtually all production and trade planning, effectively privatizing agriculture and allowing the non-state sector to now produce over two thirds of industrial output. But reforms have only about almost half impact in its transition from a centrally planned to a market economy.

There is no direct strict academic evidence to suggest that while carrying out economic reforms, Deng Xio Peng and his comrades had accession to WTO in their minds but they certainly used the terms of modern socialism which indirectly implied that they were also thinking and started hobnobbing with the idea of GATT, when China formally applied for its GATT membership restoration in middle eighties of whose successors is WTO.

There is no doubt about this that China's willingness or compulsions to join WTO will make a great dent upon its socialist economy perhaps even beyond recognition. This dent will be as big as bringing China's socialism somewhat closer to Euro socialism, provided China is not forced upon to enter into some sort of belligerency with its neighbours notably India, Russia or with any other country. We all know that war eats up or drains immense and precious economic resources which otherwise should have gone for social security coverage. Full, precise and quantitative impact on socialist economy of China could be known only after completion of following historic events:

1. The kind of agreement China enters with other member states of WTO.
2. China's formal accession to WTO.

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