China’s Foreign Trade Policy after WTO Accession

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Since China formally joined the World Trade Organization (WTO) in November 2001, its economy has continued growing strongly and attracting much foreign investment, while the world's major economies have struggled with sluggish growth or recession. Exactly how WTO entry has contributed to China's ongoing strong economic performance is greatly debated, but WTO accession has definitely meant that China's "reform and opening" have entered a new stage¾they are now institutionalized.

The clearest signs of institutionalized reform and opening are the changes that have been made in Chinese foreign trade policy. The first-year WTO commitments that China's government has fulfilled include cutting tariffs, opening most industries to foreign competition, amending or repealing old foreign trade laws and regulations, and issuing new ones that comply with WTO rules and principles. The changes that have been made to fulfill these WTO obligations are not just perfunctory policy adjustments; the changes are permanent, reform-deepening transformations of China's trade regime. As interaction with the outside world increases in both scope and scale, trade policy has attracted attention from an increasing range of interest groups. New players and forces are now trying to participate in shaping China's trade policy. Perceptions of trade policy have shifted too.

This chapter focuses on the recent changes in China's foreign trade policy in the context of WTO accession. First, it analyzes changes in trade policy thinking in the light of WTO accession by examining policy debates. It then discusses trade policy practices and adjustments, especially the Chinese government's efforts to fulfill its WTO commitments. Finally, it explores the significance of the post-WTO changes in China's trade policy. Perceptions of trade policy issues are emphasized throughout, as present thinking and policy practices will significantly influence the future path of China's foreign economic policy.

Trade Policy Debates after WTO Accession

The Role of Foreign Trade in China's Economy

China's imports and exports have expanded continuously since the 1990s. China's trade has grown at a much faster rate than its gross domestic product, and its trade dependency ratio in 2001 was 44 percent, or 1.47 times higher than in 1990. China exports much more than it imports, and, with the exception of 1993, it enjoyed fast-growing trade surpluses in the 1990s. Foreign trade became China's main engine of economic growth in the 1990s, contributing 7.5 percent on average to GDP growth (Zhang 2002). A 10 percent increase in Chinese exports was, for example, found to have resulted in a 1 percent increase in GDP in the 1990s, if both direct and indirect contributions were considered (Lin and Li 2002).

In a debate that mirrors an earlier one about the advantages and disadvantages of China joining the WTO, most Chinese scholars concur on the contribution of foreign trade to China's economic performance, although some minimize its importance. Interestingly, in the first year since China joined the world trading body, more scholars and policy analysts have joined the school that disavows the impact of foreign trade on the national economy. Many are suspicious about the current importance of the foreign trade sector, and are pessimistic about its future role. A study concerning the composition of GDP found that the contribution of international trade to China's economic growth over the past 20 years was very small (Zhu 1998). Some analysts have even contended that the relationship between GDP growth and trade surpluses is negative (Zhang and Hu 1999). Many scholars in this school are also concerned about the present growth trajectory of China's foreign trade, noting that an economy as large as China's that depends on foreign demand needs increasingly large international markets to maintain growth. They argue that the current environment is different to when Japan and the newly industrializing economies of Hong Kong, Singapore, South Korea, and Taiwan successfully used this model to grow in the 1950s through the 1970s, and that China will be unable to repeat these experiences. China's disprop ortionate dependence on the U.S. market also makes them question the sustainability of present trade growth rates.

But more scholars defend the contributions of foreign trade than query it. Apart from the larger numbers who subscribe to it, this school of thought is also the more comfortable position because it parallels the government’s public position. Official statements and public media have expended significant resources since WTO accession emphasizing the importance of foreign trade.

Comparative Advantage and Export Processing

China accepted the principle of comparative advantage only after adopting reform and opening in 1978, the initiation of which completely transformed China’s trading system and its relations with the rest of the world. Domestic considerations have been the primary motivation in reforming China’s trade policy, particularly improving the performance of its trade regime as it is so central to economic growth and development. Pre-WTO policy reforms included dismantling central planning, decentralizing and liberalizing trade, reducing a wide range of tariffs, relaxing exchange controls, and maintaining a realistic exchange rate. The principle on which to base socialist China’s trade was greatly debated in the early and mid-1980s until policymakers recognized that China’s trade could be based on comparative advantage.

Policies that favored utilizing its advantage in abundant and relatively low-cost labor would most help China’s exports. In terms of this principle, China experienced extraordinary growth in the export of labor-intensive commodities, and export processing has prospered. The share of labor-intensive products in China’s total exports increased to 74 percent in 1990 from 40 percent in 1980 (World Bank 1993).

However, faced with rising worldwide protectionism, especially newly created or upgraded barriers seemingly designed to target Chinese exports, some scholars and analysts have now started to wonder whether the principle of comparative advantage should still underpin China’s exports.

This questioning is partly motivated by the fact that international markets have changed since China acceded to the WTO. Increased global protectionism since the end of the cold war and developed economies’ growing concern about import surges from China since it joined the WTO have changed the international market for Chinese goods permanently. In order to sustain its outstanding export performance, some Chinese analysts are wondering whether the Chinese government might have to abandon or adjust the principle of comparative advantage, such as supplementing it with more active government participation.

Also, the labor-intensive industries upon which China has relied are beginning to meet with greater competition in international markets. Many labor-intensive products are over-supplied, while the demand elasticity of most of these products, especially goods used for daily life, is very small, with no hope of significant market enlargement soon.

Then there is the matter of China’s formidable size. Most trade theories assume a small economy in which the object does not have the power to influence the international price of a commodity. As a big economy, China can influence or even set the price in some industries. Even so, low long-term prices for exports are causing deteriorating terms of trade. As China’s exports have expanded, the difficulties of getting ahead have been increasing, as evidenced by the rising number of anti-dumping investigations against Chinese imports.

Suspicions about comparative advantage have led to questions about export processing. First, export processing is mostly comprised of trade in labor-intensive and low-end technological products. The design, technological component, and management of the goods that China’s enterprises process are typically done outside of China, so China reaps a tiny part only of the profit coming from this kind of trade.

Second, export processing conflicts with the goal of establishing a more sound economic structure. A long-existing problem in the Chinese economy is excessive investment in industrial capacity and relative underinvestment in the service industry. This has resulted from agriculture and manufacturing being perceived as comprising the real economy, while tertiary or service industry was considered as subsidiary and as not creating real value. China has an enormous stake in promoting the development of tertiary industry, especially knowledge-intensive industry. If policy remains tilted toward export processing and related manufacturing, the industrial structure will remain weak, and serious unemployment will not be alleviated.

Third, China’s interior and western regions are not suited for export processing. These areas are quite different geographically to the coastal areas, with no nearby ocean routes for easy expansion of export processing and small, poor markets in neighboring countries. Export processing is unlikely to prosper in these areas.

Supporters argue that the processing ability of domestic enterprises has increased tremendously over the last 20 years. Export processing is firmly rooted in China’s industrial structure, and comprises quite a significant share of total industrial output and employment. Export processing is furthermore a solid launch pad for upgrading domestic industries and for starting China’s industrialization.

Comparative advantage and export processing are still the basis of official policy, with the Communist Party’s Sixteenth Party Congress, for example, recently re-endorsing comparative advantage, despite its noted disadvantages. The thinking is that the vital contribution of labor-intensive exports to China’s economic growth is not easily replaced, an d that China’s almost unlimited labor supply means that labor-intensive industries have the potential to continue growing. Labor-intensive industries are also allowing the accumulation of national wealth and human capital to provide the basis for a later structural shift to capital-intensive industries. The development of industry, including labor-intensive industries, is a process of accumulating production know-how, management knowledge, and market experiences. And upgrading labor-intensive industries is a process of learning, absorbing, and digesting advanced technologies, with relatively low costs and within a short time, to provide the foundation to be internationally competitive in capital-intensive industries (Fan 1998). Labor-intensive products have relatively small demand elasticity, and their future growth prospects are not large compared with other products. Yet, as they are mostly daily necessities, demand will be stable, and absolute volumes will still be great. In addition to textiles, toys, and other traditional exports, labor-intensive industries include consumer electronics and general machinery, areas with great potential for further expansion.

Industrial/Enterprise Competitiveness

There are two opposite opinions on the international competitiveness of Chinese industries and enterprises¾one that considers Chinese enterprises not to be internationally competitive, and the other that regards China’s industrial and enterprise competitiveness to be sufficient for China to shortly become the world’s factory.

The Chinese Society for Enterprise Evaluation belongs to the former school and, using indicators developed in Switzerland by the IMD [Author: Please spell this out.] and the World Economic Forum, it has evaluated the competitiveness of major Chinese enterprises.

According to this evaluation system, the international competitiveness of Chinese enterprises is rather weak. They compare unfavorably with the companies of the United States and other major developed economies, as well as with those of some relatively small economies like Ireland and Denmark (see table 1). The most competitive advantage of Chinese enterprises¾indeed, almost the only advantage that Chinese enterprises enjoy¾is the cost of labor (see table 2). It should, however, also be noted that the sample of this analysis is 1,000 large state-owned enterprises, companies that are not necessarily China’s most competitive ones.

Insert Tables 1 and 2

For those who belong to the China-as-global-production-center school, China’s remarkable foreign trade performance and the rapid increase of foreign direct investment into China in the year after WTO accession validates their viewpoint. That many world-renown multinationals have set up branches and manufacturing bases in China, and that world retail giants like Wal-Mart and Carrefour have established their global procurement centers in China are also considered hard evidence of China’s competitive strength.

When endorsing the idea of China as the world’s factory, Chinese scholars typically mention China’s ample supply of low-cost labor, its vast domestic market, the presence of political will, and reform-oriented policies. Also, China’s manufacturing capacity is very strong. From 1978 to 2001, China’s total industrial output increased 24-fold for an annual average increase of 17.4 percent. Manufacturing is the main component of Chinese industry, providing 88 percent of total output value over three years recently. In 2001, 91 percent of China’s total exports were manufactured goods, while its share of total world manufactured exports increased to seven percent. China has become the world’s largest exporter of many manufactured goods, including motor cycles, watches, bicycles, computer monitors, color television sets, washing machines, refrigerators, air conditioners, microwave ovens, tape players and recorders, and print circuit boards (China Economic Times 8 April 2003).

The main counter-arguments are that China’s share of total output, total manufactured value, and total volume of global imports and exports are still quite small. Most manufactured goods are low value-added, and China is actually running a still-expanding deficit in the trade of high-technology goods. In 2001, machinery and transportation equipment was China’s largest single import item, comprising 44 percent of total imports. Chinese enterprises are also still dependent on foreign suppliers for most core technologies and essential parts that they need, including product design and processing equipment. For example, Galanz Corporation of Guangdong Province, the world’s largest microwave oven manufacturer, still imports magnetron, the oven’s core component. And China desperately needs highly skilled labor (Economic Daily 22 July 2002). Most Chinese enterprises that are regarded as strong international competitors in their fields are actually low-end assemblers and processors in the transnational value chain. Take the electronics industry as an example. In 2002, the total sales income of China’s electronics industry was almost 1,400 billion renminbi, or 11 percent of the world total, next only to the United States and Japan. But about half of the industry’s output went abroad. China has become the manufacturing base for information technology (IT) products, with 90 percent of the world’s 100 biggest IT enterprises having branches in China. China has also become the largest global manufacturer for Motorola, Nokia, and Acer. But the fact remains that Chinese IT manufacturing enterprises are just assemblers. About 60 percent of the industry’s profit comes from chip and software design and production, and this normally goes to U.S. or other foreign-owned businesses, and 20 percent comes from other essential parts, usually supplied by Japanese or Korean enterprises. Chinese enterprises get less than 10 percent (Ma and Yang 2002).

Globalization and Regionalism

The above debates have a huge bearing on China's attitude toward globalization and regionalism. Government documents considered globalization to be an unstoppable trend long before China's WTO accession. Since joining the WTO, the government has been stressing the benefits of participating in globalization more than the negative consequences. China's position in globalization is considered to be advantageous due to China's massive domestic market, its wide range of industries, and its capacity to provide a huge supply of low-cost labor for FDI. Its market-size advantage, its industrial production capabilities, and its low labor costs, combined with foreign capital, technologies and management, suggest that a highly competitive open economy could be created. For post-WTO China, the major purpose of introducing foreign investment into domestic industries has changed from utilizing capital to introducing advanced technology, upgrading its industrial structure, and increasing international competitiveness. All of these help China build its own ability to develop core technologies.

Traditional development theory contends that developing countries becoming too reliant on foreign technologies could be held back permanently. This perception changed, particularly in the mid-1990s. With faster technological advances, investment in research and development tends to depreciate more quickly, so enterprises must apply high-cost technologies as widely as possible to recoup their investment. Also, industrial organization has changed from being vertically integrated to a horizontal division of labor in some industries, necessitating a global market to distribute development costs and create economies of scale. For companies with similar technology, those who get to market fastest are the ultimate winners. So owners of new technology tend to apply that technology simultaneously across the globe. A recent survey found that the proportion of Fortune 500 Chinese affiliates that use the parent companies' technologies has increased to 80 percent in 2002 from 43 percent in 2001 and 14 percent in the mid-1990s (Jiang 2002).

The Chinese government's position toward regional cooperation is more complicated. With the collapse of the "flying geese" model of East Asian economic development, East Asian countries have been thinking about how to integrate regional resources for a new division of labor. But, if the world factory argument is to be sustained, China's greater interest would be in fully immersing itself in globalization. So pursuing a strategy of globalization rather than regionalism might be a better inclination for China, as regional economic cooperation is less likely to benefit it as much. China is also yet to open its capital account, so the real benefits of regional currency cooperation would be difficult to realize. Finally, regional cooperation could play a limited role only in promoting economic growth and safeguarding China against outside risks.

From a political-economic perspective, however, active participation in regional economic cooperation is greatly in China's national interest. Neighboring East and Southeast Asian countries are concerned about what China's rise means to their economic and security interests. A positive Chinese posture toward regional economic cooperation would have at least three immediate potential benefits. First, constructive Chinese participation in regional economic initiatives would definitely help reduce conflicts and obstruct their emergence. Second, globalization is not necessarily fair and beneficial to developing countries. By cooperating with other East and Southeast Asian countries, China would better be able to secure its own interests in the globalization process. Third, being an initiator and coordinator of regional economic cooperation now would develop regional trust in China, and would enable it to play more important roles in the future. So participating actively in regionalism would be helpful for China's global strategy.

Trade Performance and Trade Policy Practices after WTO Accession

Trade Performance in 2002

On joining the WTO, as pledged, the Chinese government promptly reduced tariffs and abolished a number of nontariff barriers for 2002. From 1 January 2002, tariffs were reduced, on average, to 12 percent from 15.3 percent on 5,300 items, covering 73 percent of the tariff schedule. For manufactured goods, the average tariff reduction was to 11.3 percent from 14.7 percent; for agricultural products, the average tariff reduction was to 15.8 percent from 18.8 percent. At the same time, nontariff barriers were lifted on grain, wool, polyester fiber, fertilizers, and some types of tires. Many expected China's trade surplus to decrease, as China's imports would likely rise quickly while exports would fall. In fact, the opposite occurred. The 2002 trade surplus actually increased significantly, to be about 50 percent higher than that for 2001. Machinery and electronic products comprised the fastest-growing export category, with a 32.3 percent increase over the previous year that was valued at US$157.1 billion. Increases for traditional labor-intensive exports such as garments, footware, and toys were 12.7 percent, 9.9 percent, and 7.9 percent respectively (Zhong 2003). Exports to most major trade partners increased significantly, with the North American market growing the fastest. Exports to the members of the Association of Southeast Asian Nations (ASEAN) also increased rapidly. On the import side, China imported most from Japan, ASEAN, and Taiwan in 2002

For various reasons, China's trade performance in the first year since joining the WTO was better than expected. China's domestic demand was relatively weak that year, which forced domestic enterprises to look for opportunities abroad, and the renminbi and the U.S. dollar both depreciated, so Chinese exports were particularly price competitive. The central government, along with local governments, adopted export-promotion policies, such as giving tax rebates and export credits, and providing credit insurance. That local governments adapted policies to suit specific regional situations was also important to maintaining export strength. FDI inflows increased significantly, and trade opportunities grew concomitantly (Jin Pei 2002).

But the most noteworthy development in the foreign trade sector was the rise of private businesses (table 3). The loosening of restrictions on foreign trade operations started in 1999 already and was then accelerated, as China promised in WTO accession protocols that the foreign trade business would be completely open to private and foreign operators in three years. New rules issued by the then Ministry of Foreign Trade and Economic Cooperation (MOFTEC), now known as the Ministry of Commerce (MOFCOM), allowed provincial and even local trade officials to grant foreign trade rights. For example, Zhejiang province is one of China’s most developed areas for private enterprise. Collective or private enterprises accounted for 80 percent of the 1,700 enterprises that obtained foreign trading rights in Zhejiang in 2002, and they were responsible for a third of total exports. Zhejiang and Guangdong are the two Chinese provinces that export the most, with exports from private enterprises increasing 250 percent and 114.6 percent respectively in 2002. In 2002, Chinese exports by private enterprises totaled US$32.8 billion, which was 66.5 percent more than for 2001. As more and more Chinese private enterprises obtain permits for conducting foreign trade, their share of total imports and exports is expected to increase further (Xinhua News Agency 2002).

Insert Table 3

The satisfactory performance of the foreign trade sector alleviated concern about foreign competition, while the rapid development of private enterprises in China’s foreign trade has added a new element to the formulating of China’s foreign economic policy.2

Building Legal Frameworks and Expanding Market Access Efforts

There are two central focuses in China’s trade policy after WTO accession¾amending and adjusting laws and regulations that are inconsistent with WTO principles, and designing and establishing a WTO-compatible trade policy regime. These two processes are complementary rather than mutually exclusive, and their interaction directs Chinese trade policy. China’s central government has been firm in pushing through the required policy reforms and adjustments, with the outstanding performance of the foreign trade sector reinforcing its efforts.

So China’s trade policy in 2002 was oriented to amending or adjusting non-WTO compliant laws, and creating new ones that are WTO compatible. The National People’s Congress made or amended laws, while the government did the same with ordinances. The State Council has processed 2,300 documents, of which 830 were repealed and 325 are being amended (Jin Liqun 2002). These laws and regulations encompass three main areas: general laws and regulations that define the overall rules for conducting foreign trade in China; laws and regulations regarding market access to sectors that were previously very protected; and laws and regulations dealing with trade remedies. This last category, the one that relates to trade remedies, is discussed separately, because of its special long-term significance, and because it is the most criticized part of China’s policy adjustments.

Promulgated in 1994, China’s Foreign Trade Law provides the fundamental legal basis and guiding principles for China’s foreign trade policies. As the law itself is very general,3 China issued the WTO-compatible Regulations on the Import and Export of Merchandise Goods and Regulations on the Import and Export of Technology in December 2001. They replaced previous laws and regulations regarding merchandise trade, such as Provisional Procedures on Operating and Managing Import and Export Commodities, which was promulgated on 19 July 1994, and Provisional Regulations on Managing the Import of Machinery and Electronic Products, which was promulgated on 7 October 1993. The two new regulations specifically define the general rules and principles established by the Foreign Trade Law, thereby fulfilling China’s commitment to repeal or revise all laws, regulations, and other measures that were inconsistent with the principles of most favored nation, national treatment, or nondiscrimination.

Numerous other new laws and regulations covering nearly all aspects of trading with China have been issued or have come into force, all with the purpose of fulfilling China’s accession commitments.4 For example, on 1 January 2002, new customs regulations took effect that aim to clarify how Chinese Customs calculates import and export duties. The regulations also allow trading companies to apply for a ruling on classification up to three months before goods are imported or exported, they waive tariffs, and they simplify the process for importing goods temporarily.

The amended laws and revised regulations will be promulgated or issued after proper legal procedures are followed. In the meantime, provincial and local authorities are still reviewing their laws and regulations to see if they are consistent with national laws. Provincial-level laws, regulations, and other regulatory measures that implement the central government’s legal measures are submitted to the central government for review.

Some trade partners have criticized China’s intellectual property rights (IPR) protections as inadequate. Upon accession to the WTO, the Chinese government committed itself to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), so it is reviewing and amending China’s intellectual property rights laws. China’s amended

Patent Law and its implementing rules, which took effect on 1 July 2001, streamline the patent application process, standardize patent infringement penalties, simplify enforcement procedures, and shift the burden of proof to defendants in patent infringement cases. Other IPR laws and regulations that address computer software, copyrights, trademarks, and criminal enforcement against counterfeiting were amended shortly thereafter. Some of the newly amended laws and regulations have protection levels that are even stricter than some developed economies. For example, the TRIPs agreement contains no specific requirements regarding software infringement by end users; it is up to WTO members themselves to determine the obligations of end users. While most developed members define infringement as unauthorized commercial use, China ' s newly amended software law extends infringement penalties to unauthorized noncommercial use.

In addition to amending previous trade rules and principles and creating new ones, the Chinese government has issued a series of regulations concerning foreign investment liberalization and market access improvement in banking, insurance, telecommunications, distribution, consulting, and some other service sectors. To conform to WTO commitments on foreign investment, China revised its Catalogue Guiding Foreign Investment in Industry and its Regulations Guiding Foreign Investment, both of which took effect on 1 April 2002. The industries in which wholly foreign-owned enterprises are now permitted have been expanded to 87.6 percent. New rules eliminate WTO-incompatible requirements on foreign exchange, advanced technology, export performance, and local content as conditions for investing by foreign-invested enterprises (Hu 2003). In July 2001, MOFTEC began loosening restrictions for domestic nonstate enterprises engaging in trade when it issued its Circular Concerning the Rules Administering Trading Rights. The objective of this circular was to shift MOFTEC out of managing trade to simply registering prospective domestic traders. These rules extend trading rights to private manufacturing firms as well as to private trading companies. To improve transparency, the rules set time limits for the approval process, so that the regulatory authorities can no longer hold up applications indefinitely. The rules also reduced the minimum capital requirement for wholly Chinese-invested enterprises to obtain trading rights. In July 2001, MOFTEC issued its Circular Concerning the Extension of Trading Rights for Foreign-Funded Enterprises which granted trading rights to some foreign-invested firms ahead of schedule (United States Trade Representative 2002).

The Chinese government has also worked to open the services market in accordance with WTO commitments. In the financial sector, some foreign banks have started to negotiate merger and acquisitions deals with the Chinese banks, and foreign financial institutions have been invited to form joint ventures to help dispose of nonperforming loans from the four major commercial banks. A number of foreign banks have received licenses to operate in areas newly liberalized by China ' s WTO commitments. Upon WTO entry, foreign investment in foreign currency services was allowed nationwide, and foreign or joint venture banks such as the Bank of East Asia, Citibank, HSBC, and Standard Chartered have received licenses. The right to offer renminbi lending to foreign companies and individuals has been expanded to include Dalian and Tianjin, after successful pilot programs in Guangdong and Shanghai. Several Japanese and South Korean banks have applications pending or have been approved to provide renminbi services in Dalian and Tianjin. In the insurance sector, China ' s State Council has approved amendments to the 1995 Insurance Law. On 13 December 2001, the China Insurance Regulatory Commission (CIRC) approved New York Life Insurance, Metropolitan Life Insurance, Nippon Life Insurance, and another four foreign insurers to set up or to expand business operations in China.

In some areas, the opening of the services market is ahead of schedule for the first year of WTO membership. For example, foreign insurance companies are allowed to open businesses in Beijing and Tianjin. Some foreign retail branches are negotiating with their Chinese counterparts to take a majority share of their equity. From July 2002, foreign travel agents have started to form joint ventures or set up wholly owned subsidiaries in Shanghai. Well in advance of the phase-in dates for market access, CIRC issued four new insurance regulations that cover foreign insurance companies, insurance appraisal institutions, insurance brokerage companies, and insurance agency institutions.

Building the Trade Remedy System

The most controversial part of China ' s trade policy adjustment efforts in the first year after WTO accession was in the area of trade remedies. Again, there are two sides to the efforts to build a trade-remedy system¾one is reforming and adjusting current trade relief regulations and measures that are inconsistent with WTO requirements, and the other side is creating a WTO-compatible trade remedy system.

The most important first step was building China ' s own antidumping and countervailing system. China promised to repeal import quotas, import licenses, and most other traditional nontariff barriers at accession, or on 1 January 2004, or 2005, so other ways to protect domestic industries against unfair or improper trade practices will need to be found. In October 2001, three regulations that form the basis of China ' s new trade remedy system were introduced: Regulations on Antidumping Duties; Regulations on Countervailing Duties; and Regulations on Safeguard Measures. They replaced Regulations on Antidumping and Countervailing Duties that was issued in 1997.

Introducing WTO-compatible antidumping, countervailing, and safeguard measures is the only feasible way to move against unfair trade practices. Antidumping was the most-used tool in this regard in 2002, with cases in the steel and petrochemical industries. Countervailing and safeguard measures are still symbolic at this moment, but they could become im portant trade remedies in the future, especially safeguard measures that target so-called import surges.

But these three regulations are not enough to establish a comprehensive trade remedy system, at least for some policy analysts and scholars. They strongly favor adopting other measures to complement the three basic regulations, such as increasing financial subsidies to domestic agriculture. In its accession negotiations, China promised that agricultural support would not surpass 8.5 percent. However, current agricultural support is much lower than that. So there is room to increase financial support to domestic agriculture while staying compliant with WTO rules (Lv 2002).

Conclusion

After WTO accession, rule-based behavior has become one of the basic principles of government conduct. Even though rules themselves do not automatically lead to liberalization, ongoing efforts to impose a systemic set of rules will continue to boost economic performance.

However, Chinese authorities are still ready to intervene if necessary. The government is convinced of the importance of accelerating the development of high-technology industries to maintain international competitiveness in the face of globalization, so China will adopt policies that further this goal. Combined with increased foreign direct investment, the focus will be to expand technology-intensive manufacturing exports as rapidly as possible. Yet pushing high-tech exports will often need support in the form of policies such as tax rebates, as they are not necessarily in line with China's comparative advantage.

China displayed determination to fulfill its WTO commitments in the first year of accession to the world trading body. It adjusted its trade policy on two tracks: one was reforming and adjusting existing structures and practices to conform to its promises; the other one was building new rules-based trade policies. Outstanding performance of the foreign trade sector in 2002 reinforced China's confidence, and thus its determination. The success of these adjustments will be very significant for China's future. A U.S. scholar summed it up cogently: "If China's full incorporation into the world trading system is managed well, it seems likely that the reforms . . . will be seen as another watershed event contributing strongly to the modernization of China and its full integration into the world economy" (Pearson, 1999).

Notes

1. Almost all influential Chinese economists and researchers in international economics were involved in the debate, the theme of which was whether or not the theory of comparative advantage could apply in China. See Xu(1999).
2. For a discussion of the role of government agencies and interest groups informulating China's trade policy, see Pearson (1999) and Shen (2000).
3. The basic principles are: The country has a unified foreign trade system; fair and free foreign trade is safeguarded; foreign trade dealers are ensured independent operational authority; the development of foreign trade is encouraged; and trade relations with other countries and regions are promoted on the basis of equality and mutual benefit. See Shi (2002).

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Table 1: Transnational Comparison of Competitiveness, 1999.

	Score	Rank
United States	100	1
The Netherlands	91.94	2
Canada	91.04	3
Switzerland	90.52	4
Singapore	89.97	5
Finland	89.42	6
Hong Kong, SAR	88.06	7
Sweden	87.04	8
Ireland	83.68	9
Denmark	82.89	10
China	25.72	38

Source: Zhang Wenkui, “Zhongguo qiye jingzhengli zhuangkuang, The State of Competiveness of China’s Enterprises,” Review of Economic Research. 2003 (2)

Table 2: International Competitiveness of Chinese Enterprises in terms of Management, 1999.

	1995	1996	1997	1998	1999	Average
Management Competitiveness	30	34	30	36	37	33.4
Labor Productivity	36	38	42	46	38	40
Labor Cost	12	2	1	3	11	5.8

Enterprise Performance 28 37 31 35 39 34

Management Effectiveness 36 32 29 34 33 32.8

Source: Zhang Wenkui, “Zhongguo qiye jingzhengli zhuangkuang, The State of Competiveness of China’s Enterprises,” Review of Economic Research. 2003 (2).

Table 3: Imports and Exports of Enterprises in 2002 (100 million US$)

	Exports	Year-to-year change (%)	Imports	Year-to-year change (%)
State-owned Enterprises	1,228.6	8.5	1,144.9	10.6
Foreign-invested Enterprises	1,699.4	27.6	1,602.7	27.4
Collective Enterprises	188.6	32.6	94.8	18.5
Private Enterprises	137.8	159.5	95.6	180.9
Others	1.3	-12.5	14.1	-49.7

Source: Ministry of Commerce (2003). http://www.mofcom.gov.cn/article/200302/20030200070411_1.xml.

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