

INTRODUCTION TO THE SPECIAL SECTION ON CHINA AND THE WTO

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In the wake of China's entry into the World Trade Organization (WTO), the City University of Hong Kong organized a conference on Greater China and the WTO in March 2001. This special section contains papers presented at, submitted to or related to the theme of the conference. The papers explore a range of issues related to China's WTO accession, including the institutional impact of accession on China, the MFN principle in accession negotiations, China's regional protectionism and agricultural trade.

The special section starts with a speech delivered by Gregory Chow at the conference, drawn in part from his new book, *China's Economic Transformation* (2002). Adopting a historical–institutional approach, Chow argues that, while joining the WTO will have a positive impact on the evolution of China's economic, legal and political institutions, the effects will come only gradually. Using data on industrial composition of GDP, he shows that China's economic liberalization, which started in late 1970s, has already been transforming its economy, with the share of primary industry declining and the share of tertiary industry increasing. Viewed in this context, the structural adjustment of the Chinese economy is an ongoing process, and China's WTO entry needs to be viewed as part of this larger process. In this sense, while it will hasten the rate of change, the impact will be modest. Gradualism also follows because of the built-in gradualism in implementing China's WTO commitments and its regional protection schemes. The most significant aspect of China's joining the WTO is probably that the Chinese economy and its reform process, which has been largely driven by internal forces, will be more firmly anchored to the global economy. Chow also points out that, given the legal behavior of the Chinese people (rooted in traditional Chinese culture), a WTO-induced buildup of legal institutions will necessarily be a slow process. Even more so, the ultimate establishment of the rule of law in China will also be gradual.

The slow and gradual pace of China's engagement with the WTO is also reflected in the accession process itself, which has taken more than fifteen years. China negotiated very hard over the terms of its membership, and held fast on tough positions until major concessions were made in the final minutes. What explains China's tough stance in the negotiations? The well-known MFN

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principle could be a reason. In a theory paper, Eric Bond, Stephen Ching and Edwin Lai use a cooperative bargaining model to study the differences the MFN principle can make in the distribution of welfare gains from accession negotiations. They assume that three countries, one an acceding country and two member countries, are negotiating in a sequential manner. In the absence of MFN, they find that the acceding country takes one quarter of the total gains from the negotiated trade liberalization; but with MFN in place it takes half of the gains. The intuition behind their theoretical findings is that, under the MFN principle, an acceding country like China would not easily make concessions, as it understands that any concession it makes to one member will be extended automatically to all other members. This hardens its bargaining position, and as a result, in terms of share of welfare gains, the acceding country benefits more than if there were no MFN principle. The model also shows that negotiated trade liberalization leads to freer, but not free, trade. As such, the global welfare is not maximized in general.

Recently there has been a new thread in the literature on the fragmentation of the Chinese domestic market. This fragmentation follows from a mix of policies, including internal trade barriers. What is the implication of China's WTO entry for these regional protection schemes? Specifically, would regional trade liberalization be good for Chinese regions, and for China as a whole, with or without China's joining the WTO? In another theory paper, Jie Li and Anming Zhang formalize this problem with a model of two countries (China and the rest of the world), and two goods (labor-intensive and capital-intensive). Within China there are two regions; both international and regional trade barriers protect one, while only a less restrictive international barrier protects the other. Their model shows that without WTO entry regional liberalization hurts the more protected region and benefits the other, whereas with WTO entry regional liberalization does not make a difference, as there is no price differential for the imported good in the two regions. An interesting conclusion to be drawn from this paper is that WTO entry can render regional trade barriers useless. It may thus help rationalize a liberalization of China's internal trade.

Agriculture is a sensitive sector in world trade, and this is also true for China. China's WTO entry has sparked speculations that vulnerable sectors in Chinese agriculture will suffer badly from foreign competition. There is also concern that displaced peasants will pose a serious threat to social stability. However, Jikun Huang and Scott Rozelle argue that the impact on Chinese agriculture could be modest, echoing the sentiment in Gregory Chow's paper. They construct inflation-adjusted nominal protection rates and find that, contrary to the situations in Europe and the US, Chinese agriculture has in fact been taxed rather than supported in the past twenty years, even for import-competing products! Nevertheless, agricultural liberalization has led domestic agricultural prices to move towards world market prices and exports to become more compatible with the country's comparative advantages. Based on these observations, Huang and Rozelle argue that China's WTO accession and its commitment to opening its agricultural market is a continuation of this liberalization process, rather than a radical policy change. The paper also provides

a quantitative assessment of the impact of China's WTO entry on agriculture, using a partial equilibrium Chinese agricultural policy simulation model known as CAPSiM.

The last paper, by Kym Anderson and Shunli Yao, addresses the controversial issue of genetically modified organisms (GMOs) in agriculture and trade. Though not formally covered by WTO rules, this is looming as a potential source of trade disputes at the WTO. (Indeed, it has already been a source of EU-US frictions among China, EU and the US.) Anderson and Yao use a global CGE model (GTAP) to project the world economy from 1995 to 2005, showing that industrialization and accession to the WTO could lower China's self-sufficiency for agricultural products, and in turn calling for application of GM technology to boost output. China has much to gain from GM technology. But compared with other trade liberalization measures, such as removing China's Multi-Fiber Arrangement (MFA) quotas, the gains from GM technology are of only second-order importance. Also, China's welfare gains from GM technology depend to a considerable extent on the trade policy stance taken by high-income countries opposed to GMOs, particularly its neighboring rich Asian economies.

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