EF3461 Lecture 9
Trade and WTO Accession

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GATT

• The General Agreement on Trade and Tariff (GATT) was established in 1947 with the aim to promote multilateral trade agreements between trading countries. The GATT soon became the platform for trade negotiation between export developing countries and advanced industrialized countries. The GATT was succeeded by the Marrakesh Agreement that established the World Trade Organization (WTO) in 1995.
WTO

• The ultimate authority of the WTO is rested in the Ministerial Conference which meets every two years. There are two major issues that the WTO differed from the GATT. 1) The WTO has two powerful committees to review the Trade-Related Aspects of Intellectual Property Rights (TRIPs) and Trade Policy Review Mechanism (TPRM). The former committee works on the intellectual property right issue, while the latter looks at trade disputes between members.
2 Issues

• Secondly, bilateral trade negotiations under WTO deals with both goods and services trade. Intellectual property right and service trade have become a prominent factor in WTO accession.
WTO Powerful

• The most powerful WTO members are the “quad” members of the United States, Canada, European Union countries and Japan. Application for accession must hold separate negotiations with and seek agreement from each of the quad members. Thus, accession is effectively conducted on a bilateral basis between the applicant and each of the quad members.
China’s Accession

• There are no formal criteria for accession, but the two general principles for China accession are that China’s accession will set the stage for further expansion in trade and investment through the dismantling of tariff and other barriers and will reach common set of rules and standards through which solutions in trade can be made.
Need to Change

- The WTO rules are based on the principles of market economy, and adhered to the ideas of pro-competition and non-discrimination. Despite China’s “socialist market economy”, the Working Party in its early stage of negotiation pointed out areas of rectification: eliminate special treatments, remove quotas & tariffs, non-discrimination in policies, IPR protection, etc.
China’s Reaction

- Over the years, China has:
  - Set up IPR institutions
  - Remove quotas
  - Reduce tariffs
  - Liberalize economy (e.g. exchange rate)
2 Schools

• Join first, change later: EU, Japan, Canada
• Change first, join later: US
• Problematic: Sino-US trade agreement.
• China’s strategy: get friendly with France & Germany, Canada, Japan. Show signs of “cannot be bothered”.
• Zhu Rongji in late 1990s pushed.
Table 7.15 China’s Concessions in the April 1999 Sino-US WTO Negotiation

Agriculture

Overall tariff would be reduced to 17 percent by 2004. For US priority products, the tariff would drop to 14.5 percent. China agreed to lift food safety bans on some agricultural products.

Telecommunication

China drops geographical restrictions on imports of pagers, mobile/cellular phones and domestic wireline services within six years of entry. Foreign ownership would be allowed up to 49 and 51 percent of all services and for value-added and paging services, respectively, within four years of entry.

Banking

China agreed to allow US banks to handle all foreign currency transactions for foreign clients immediately after entry into the WTO. Banks could handle foreign currency transactions for local clients after one year.

Insurance

Foreign ownership of life insurance firms of up to 50 percent allowed upon WTO entry, increased to 51 percent after one year. Non-life and reinsurance firms would be allowed to take a 51 percent stake in a joint venture immediately and form wholly owned subsidiaries in two years.

High Technology

By 2005, China would eliminate tariffs on semi-conductors, computers, computer equipment, telecommunication equipment and other technology products.

Cars

Reduction of car tariffs to 25 percent in 2005 and car parts tariffs to an average of 10 percent. Quota on car imports would be phrased out by 2005.

Audio-visual

Immediately after entry, China would import at least 40 foreign films in a year.

Travel and tourism

China would allow unrestricted access to the Chinese market for hotel operators upon entry, and with 100 percent foreign ownership allowed within three years of entry.

Chemicals, Wood and paper

China pledged to reduce tariffs on chemical to around 6 percent. Tariffs on wood and paper will be cut to around 5 to 7 percent.
China’s Concessions

- 1) The overall tariff will fall to an average of about 17 percent, and on farm goods to a maximum of 15 percent.
- 2) Liberalize significantly import of agriculture goods, especially wheat, corn, cotton and other bulk commodities.
- 3) Eliminate non-tariff quota between two to five years. The tariff on imported cars will be cut to 25 percent by 2006, and foreign financial institutions will be allowed to finance the purchase of cars.
- 4) Allow 49 percent foreign investment in telecommunication firms from the date of entry, rising to 50 percent in two years.
- 5) Foreign banks will be allowed to conduct local currency business with domestic companies and domestic individuals two years and five years after accession, respectively.
- 6) Lift the ban on foreign investment in the Internet.
- The concession China received is in the area of textile. China’s quota on textile exports will end in 2005 instead of 2010, though an “anti-import surge” mechanism will remain for a further four years so as to prevent an export flood.
Has China Gained?

• Give more than Take. But ensure the open market. Allow foreign competition.
• Would foreign competition help to improve China?
Bilateral Trade Agreement

• Hong Kong does not impose any restrictions on trade and investment. Trade restriction has always been imposed on Hong Kong by other traders.
• A bilateral trade agreement is thought to help the recessed Hong Kong economy to recover.
Trade Agreement with China

• Allowing Hong Kong businesses and professionals to be the “first mover” can be “a stone killing two birds”: creating more business opportunities for Hong Kong, and enterprises in Mainland China can exploit the Hong Kong connection to improve their economic efficiency and marketability.

• Domestic export from Hong Kong to Mainland China will increase. Re-exports could rise significantly as a result of trade diversion, as some exports from other countries would be diverted through Hong Kong to take advantage of its preferential tariff status.
CEPA, CEPA II

• A “building block” approach is adopted in drawing conclusions in the trade agreement. The first phrase of a Closer Economic Partnership Agreement (CEPA) between Mainland China and Hong Kong SAR was concluded on June 29, 2003, while the second phrase, known as CEPA II, was concluded on August 27, 2004.

• CEPA contained concessions on both trade in goods and services and an agreement on trade facilitation, while CEPA II extended both trades in good and service concessions to Hong Kong.
Objectives of CEPA

• The objectives of the agreement, as specified in Article 1, are to strengthen trade and investment cooperation between the Mainland and Hong Kong and to promote joint development through the reduction in tariff and non-tariff barriers, the liberalization of trade in services through the elimination of discriminatory measures, and the promotion of trade and investment facilitation.
Trade in Goods

• The CEPA contained concessions in three areas: trade in goods, trade in services and trade and investment facilitation. As far as trade in goods is concerned, Mainland China from January 2004 will impose no tariff on a total of 374 imports of goods of Hong Kong origin.

• These 374 goods can be classified under eleven categories: plastic articles, paper articles, textiles and clothing, chemical products, pharmaceutical products, electrical and electronics, clocks and watches, cosmetics, jewelry, metal products and others.
CEPA II

• The second phrase, CEPA II, expanded the list of export to another 713 goods (consists of 529 existing tariff codes and 184 planned tariff codes) that are classified under nine categories of food, medicine, marine products, chemicals, rubber, leather, textile, metal products and electronics.

• The list of 713 goods in CEPA II contained a number of resource-related or primary goods.
Conditions

• 90 percent of the value of Hong Kong’s domestic good exports to Mainland will be free from tariff payment.

• The rule of origin required a 25 percent “local content”.

• Definition of being a HK company.
Trade in Services

• CEPA stated that the two economies will “progressively reduce or eliminate existing restrictive measures against services and service suppliers.”

• A total of 17 service sectors in Hong Kong will benefit from the increase in access to the Mainland market.

• The two common features that apply to a large number of service sectors are the permission for Hong Kong investors to set up wholly-owned enterprises (WOE) in Mainland, and the concessions can take place ahead of China’s WTO timetable by one or more years.

• The list of market access for services is extended to 18 service sectors in CEPA II.
Advantage to HK

• Since 1997, Mainland China has indeed become the largest investor in Hong Kong. The next phrase of Mainland China’s economic liberalization will be the relaxation in the trading of Renminbi and the capital account.
Facilitation

• CEPA provides agreements on trade and investment facilitation involving a greater degree of transparency, standards conformance and exchange of information. Cooperation will be conducted in trade and investment promotion, custom clearance, quarantine and inspection of commodities, food safety and quality assurance, electronic commerce, transparency in law and regulations, small- and medium-sized enterprises and Chinese medicine and medical products.
Macroeconomics

• The central government in Beijing has indeed shown their willingness to help the Hong Kong economy, as a number of concessions in the CEPA can permit Hong Kong companies to enter the Mainland market before China’s WTO commitment.

• A fully implemented CEPA will bring an extra 0.4 percent of GDP growth in Hong Kong annually, and the number of job created ranged from five to ten thousand (Deutsche Bank).
International Relationships

• Being international, HK can go beyond just trade, but into international relationship. An Association of Free Economies?

• The globalization trend: is China winning or losing? Trade complement effect or substitution effect?
Seminar on: The WTO Doha Development Agenda
Dr. Kui-Wai Li
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City University of Hong Kong
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Economism is a Paradigm of “More or Less”.
WTO Differs from GATT

• Ultimately multilateral in outcome, but usually is bilateral in negotiation. Members reached bilateral agreements (FTA) under the multilateral framework.

• At the world level, trilateral behavior with US, EU and LDCs.
The Doha Round 2001

- Established the Trade Negotiations Committee (TNC): construct modalities for
  - Agriculture
  - Non-Agriculture Market Access (NAMA)
  - Market opening in services
  - Trade facilitation
  - Development dimension
July 2004 Package

• Achieve the Doha Development Agenda by structuring a “end point” plan in 2006, namely all tariff and non-tariff barriers will have to be removed.

• The process of reaching the “end point”: Hong Kong meeting will have to achieve 2/3 of the process. I.e. agree on the formula, but to work out the details before end 2006.
Agriculture

- Members (EU, US) provided farm subsidies to their farmers.
- HK meeting: aimed to reduce substantially trade-distorting domestic support using a tiered formula.
- Market access: reduction in tariffs, quota, preferences and simplification of related administration.
- Sectoral initiatives: cotton
NAMA

• Aim to reduce/eliminate tariffs and non-tariff barriers. Apply a non-linear formula taking into account the needs and interests of LDCs. Define product coverage, participation, provision of flexibility for LDCs.

• Chicken & egg problem: some do not want to discuss numbers without first having defined structure, others have problem in discussing the structure without first having the numbers.

• HK: concentrate on few key issues, start with coverage, followed by tax reduction.

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Economism is a Paradigm of “More or Less”.
Services, Facilitation, Development

- Services: aim at rule-making.
- Trade facilitation: level of ambition vs political commitment.
- Development: Aid-for-trade principle.
Trade Negotiation

- Trade Negotiation Committee forms groups: market access, agriculture, etc.
- Principle: Single undertaking: every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately. “Nothing is agreed until everything is agreed”.

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Economism is a Paradigm of “More or Less”.
Lateralism

- Unilateralism: possible for single country to act temporarily, but will have to come under the WTO eventually. Dispute on IPR initiated by US on China within WTO.
- Bilateralism: inevitable means to achieve multilateralism. Bilateral agreements become basis of multilateral agreements. Sino-US trade agreement formed the basis for China’s accession to WTO.
Regionalism

• Most WTO members are single economic entities. EU is the only regional block. WTO is dominated by the quad-members: US, EU, Japan, Canada, Australia. The LDCs forms the third group.

• No significant regionalism within WTO.

• On trade, regional groupings tend to adhere to WTO mandate.
Multilateral Trading System

• Free trade does not need to have agreements and negotiations. Promote “free trade” through agreements.
• Experience a bumpy road, it involves rested interest, gain & loss by participants.
• Vast economic differences among world economies require a “trade language”.

Economism is a Paradigm of “More or Less”.

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Globalization Debate

• Can be defined differently, but all countries are globalized to a different degree.

• Pro-globalization: benefit trade, income & growth overtime. Focused on openness & external connections.

• Anti-globalization: takes a protectionist approach and focused on internal issues, loss of jobs to low-wage countries, sweat-labor, greater inequality.
Attitude to Openness

- External economies: trade, FDI, etc.
- Internal economy: rule of law, governance, etc.

Is the internal economy prepared? If not, the country may “suffer” from the unavoidable globalization process.

- Is globalization faulty? Does not make sense to blame globalization for the lack of internal progress?
- Globalization is a dynamic process, but not all countries are dynamic. E.g. textile agreements.

*Economism is a Paradigm of “More or Less”.*
Future of WTO

• There is no free trade, but free trade is conducted through trade negotiations, which can be political. Trade is dynamic, new changes bring new negotiations.
• Multilateralism is becoming an ideal: wants to have, but takes time.
• WTO represents the drive to multilateralism.