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Headline: China in the WTO: Let's Cut It Some Slack

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America's war against terrorism puts a tough geopolitical overlay on its international economic interests. It will require Washington to deepen ties with countries that sign up as allies and spurn those that don't. Among the biggest questions is whether China will join the coalition. So far, there are hopeful signs, such as the pledge by Foreign Minister Tang Jiaxuan, made to President Bush on Sept. 21, that Beijing was willing to share some of its intelligence information.

Yet the heart of U.S.-China relations in the months and years ahead will be trade, which has become much more than just a commercial issue. China is now certain to be admitted into the World Trade Organization in the next few months. Soon, it will be clear that the 15 years of tortuous negotiations to get China into the club will be seen as much easier than dealing with the Middle Kingdom as a member. If China makes good on its commitments to join the antiterrorist effort, it will need, and deserve, American help in dealing with at least four upcoming economic flash points.

First, in order to join the WTO, China made extraordinary concessions, and there could be an internal backlash against adhering to its obligations. Beijing has committed to tariff rates that are lower than any other developing country, and it has forgone the use of key subsidies that the WTO normally permits. It has allowed other governments to shut out its goods with much less justification than required under existing international trade law and permitted them to retain import restrictions on textile and clothing products for an unusually long time.

LEGISLATIVE CHALLENGE. Second, it is unlikely that Beijing can implement all of its commitments, which could lead to harassment from its trading partners. For example, China has to gain the cooperation of far-flung provinces that will resist the widespread deregulation required by the WTO. It also has to amend more than 170 laws and regulations just to modernize its customs procedures, let alone all of its other statutes. It must establish an effective legal system for protecting intellectual-property rights, not to mention independent regulators for telecommunications and modern

financial legislation. These are goals that took the U.S. at least a half-century to achieve.

Third, Beijing is likely to emerge as an exporting superpower, aggravating America's trade deficit and fanning protectionist pressures in a slumping world economy. China is sucking investment and production out of countries as diverse as Japan and Malaysia, and it is rapidly becoming the manufacturing hub for all of Asia. In the past decade, Japan has halved its investment in Southeast Asia and doubled it in China. Last year, Taiwan invested \$1.5 billion in China, five times the 1999 amount. Meanwhile, a host of indigenous companies, such as Legend (computers), Huawei (switching equipment), and Konka (TVs) are becoming super-competitive international companies.

Fourth, China's entry into the WTO will radically alter current trade politics. Beijing will want not just any seat but one on the dais. It is likely to veto any behind-the-scenes agreements concluded by the U.S., EU, Canada, and Japan, the cozy club that has until now run the WTO. Beijing will champion developing-country demands for lower trade barriers to their exports and for more constraints on Western antidumping policies.

ON THE UPSIDE. Not everyone is worried. The Brookings Institution's Nicholas Lardy, who will soon release *Integrating China In The World Economy*, a thoughtful and comprehensive analysis of China's entry into the WTO, expresses cautious optimism. He believes China has already made substantial internal policy adjustments to prepare for membership. Former U.S. Trade Representative Charlene Barshefsky, who negotiated the China deal for the U.S., told me that China's commitments to the WTO could be the foundation for essential internal reforms. But both agree that China's leadership has gambled its legitimacy and its survival on the assumption that WTO membership will make its people better off. If that proves to be wrong, China's intertwined economic and political revolutions could degenerate into chaos or extreme nationalism.

Assuming that China is willing to help the U.S. combat terrorism, Washington needs a plan that presses Beijing to deliver on its WTO commitments yet makes allowances for the extreme difficulties of doing so. First, China would have to share intelligence, refrain from exporting military equipment to rogue states, and help trap terrorists if it can. In return,

President Bush would have to rein in Congress' protectionist tendencies, provide extensive technical assistance to China to help it implement the accords, and lead the Group of Eight countries toward similarly sensitive policies. Of course, if China lets Washington down, it should expect to pay a high price.

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