



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

22485

Asia-Pacific Regional Forum on Industrial Development, Shanghai 2000

Shanghai, China, 4–5 December 2000



Accession of China to the World Trade Organization:
Impact on the manufacturing sector of China

by Zhang Zhigang



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Organized by UNIDO in cooperation with
the Government of China

**ACCESSION OF CHINA
TO THE WORLD TRADE ORGANIZATION:
IMPACT ON THE MANUFACTURING SECTOR OF CHINA**

**Speaker: Mr. Zhang Zhigang,
Vice Chairman of State Economic and Trade Commission,
China**

December 2000

Impact of the WTO Membership on China's Industrial Development and the Countermeasures

December 4, 2000

Ladies and gentlemen,
Good morning!

It's my pleasure to attend the "Asian-Pacific Forum on Industrial Development, Shanghai 2000", jointly sponsored by the Shanghai Municipality Government, the State Economic and Trade Commission, the Ministry of Foreign Trade and Economic Cooperation and the United Nations Industrial Development Organization. Since the process of China's entry into the WTO has been accelerated, China's economy will merge with the world economy in a wider range of fields and at a higher level. This will pose both new opportunities and tough challenges to China's industrial development. Today, my presentation is going to cover three topics - the comprehensive balance of obligations and rights, the impact on industrial development, and the new requirements for the Chinese Government in managing economy.

Part I. China's accession to WTO is a balance of obligations and rights

China is the largest developing country in the world. Without China's membership, the WTO is incomplete; the WTO can be called a true world trade organization only when China becomes part of it. Fourteen years have gone by since China applied to resume its founding state status at GATT and then applied to enter WTO. In line with the WTO rules and in view of the national interests, China is unswervingly seeking a balance of obligations and rights.

After entry into the WTO, China, as a member of the world trade organization, will enjoy its due rights, which cover four fields:

(1) After its accession to the WTO, China, as a formal member of the WTO, will enjoy its right to speak and to vote rather than being a mere observer. It will play a more active part both in the political and economic realm. At the same time, China, as a developing country, can enjoy the "grace period arrangement", so that it can adopt necessary protective measures for its infant industries.

(2) The accession to the WTO will enable China to participate in a new round of WTO's multilateral trade negotiation. Through participating in the formulation of international trade rules, China can effectively protect its legal rights and interests.

(3) After entry into WTO, China will enjoy the market access commitment made by other WTO members, whose obligations will in turn become China's rights. According to its promise on the Most Favored Nation treatment, the U.S. will cancel its annual discussion

of China's most favored nation status, giving China once and for all the most favored nation treatment, now renamed as the Permanent Normal Trade Relation (PNTR).

(4) Joining the WTO will improve China's economic relations with other countries and regions. Moreover, by utilizing the dispute settlement mechanism offered by the WTO, it can reduce the unilaterally discriminatory restrictions set by some countries, so as to guarantee fair trade and to safeguard China's legal rights and interests as well as to improve the external environment needed for China's economic development.

In consideration of the overall and long-term interests, the creation of a peaceful external environment for development is of a strategic significance to China. According to China's promise made during negotiations for joining the WTO, China will take up its corresponding obligations in the areas of tariff concession and the gradual cancellation of non-tariff barriers. The tariff rates on industrial products will be reduced to 9.44%. The year of 2005 will witness the final implementation of tax reduction; with regard to some particular products, the deadline is 2008. In line with WTO's rules, within at most a five-year grace period, non-tariff barriers on 358 taxable items of major industrial products will be removed step by step; and the numbers of basic quotas as well as the annual increment during this period on 24 kinds of commodities have been promised. In view of the distribution service related to industry, the wholesale and retail market of some sensitive commodities will gradually open to the outside world. Despite of the potential shocks and challenges, China's accession to the WTO will benefit the long-term development of China.

Part II. WTO will bring both opportunities and challenges to China's industrial development.

The comprehensive investigation and analysis of over ten industries (textile, light industry, coal, metallurgic, petrochemical, machinery, automotive, construction materials, non-ferrous metals, tobacco and pharmaceutical industries) reveals that different industries in China vary in their competitiveness; hence, China's WTO membership will have different impacts on them. Mainly they can be classified into three categories in term of their competitiveness:

Category One: Industries with comparative advantages

These industries include textile, light industry, coal, building materials and non-ferrous metals. Among them, clothing, silk, down products, electrical household appliances, general mechanical and electrical products, small machinery, leather products, shoes, toys and coal have quite distinct advantages:

(1) Their production volume is taking the lead in the world. Clothing, cotton textile, silk, chemical fiber, coal as well as cementing all rank first in the world; air conditioner, washing machine, and refrigerator constitute respectively 30%, 24%, 16% of the world's

total, enabling China to be a major producer of household electrical appliances. (2) They are export-oriented, occupying relatively large market shares. The export value of seven categories of products like textile products, clothing, general mechanical and electrical products, shoes, travelling articles and cases, toys and plastic products topped US\$ 141.2 billion, accounting for 72.4% of China's total in 1999. (3) There are a group of business with high competitiveness and famous brands in these sectors. Take the top six household electrical appliance manufacturers for example, according to statistics, they are producing 75% of China's refrigerators, 74.6% of the washing machines and 68.5% of the air conditioners. Domestic manufacturers have 80% share of the market of major household appliances. Famous domestic brands include Haier, Kolon, Chunlan, Gree, Little Swan, Changhong and TCL. (4) They have obvious advantages in labor costs and resources.

Weakness: Generally speaking, these industries have manifest competitiveness. Yet they are still lagging behind some of their peers in other countries. This is demonstrated by the facts that a large part of the products are of low and medium grade, low in added value, and the number of famous home brands is still small; The scale of production is small in many businesses. The grade of techniques and equipment in some businesses is quite low.

Solution: These industries, while consolidating their competitiveness, should grasp the opportunities engendered by China's accession to the WTO to increase their share in the global market. The business with export advantages should be encouraged to employ the "go-out" strategy, to increase input into technology innovation, to accelerate the pace of product mix improvement and industrial upgrading and to create their own famous brands.

Category Two: The industries with fairly good technology foundations yet weaker competitiveness

These include the industries of metallurgical, petrochemical, and machinery; their typical products are steel, product oil, synthetic materials, chemical fertilizer, tyres, pesticides, heavy and large technological equipment (power-generation, petrochemical, mining and metallurgical equipment), mechanical and electrical equipment (digitally-controlled lathe, instrument and meter and mechanical component); agricultural machinery and papermaking.

The general scale of these industries ranks high in the world. The output of steel and fertilizers has been ranking first for many years in row; the ranks for the output of crude oil, ethylene and machinery are fifth, fourth and fifth respectively. After over 20 years of technology introduction and localization, these industries are now equipped with fairly good technology and hardware. The leading businesses in these industries are not too far behind their overseas peers. As a matter of fact, the technologies used in the machinery industry have reached a fairly high level and their capability of large and precision equipment and complete plants is constantly enhanced. Now the equipment needed in power, mining, metallurgical, petrochemical and transportation industries are mainly produced domestically.

Weakness: Nevertheless, in terms of the overall standard, these industries still have a long way to go. (1) The production is too scattered and the structure of many businesses needs to be improved. (2) The product mix is out-of-date and of low grades. (3) They lack their own R&D facilities due to their low technology level and limited R&D capability. (4) They are sometime not efficiently managed and the profit is low.

Since these industries are the suppliers of basic raw materials, equipment and other important products for other industries, they reflect the economic strength of a country and macro-control capability of the state economy. Thus they play a major role in the national economy. Upon China's WTO entry, the biggest challenge they will face is the influx of the high-and-middle-grade foreign products. With regard to this category of industries, practical and effective measures should be adopted.

Solution: (1) Accelerate the restructuring and reform of enterprises. Concentrate the production into fewer facilities. Lower the cost. Enhance competitiveness and immunity against risks. (2) Introduce advanced technologies to further optimize and upgrade the product mix. Fine-tune to the market demand. Expand export volume. (3) Have extensive cooperation in various forms with overseas partners and open up more channels for foreign investment. Encourage businesses in the metallurgical, petrochemical and machinery industries to team up with multinational corporations for more resources of capital, technology and management expertise. In this way, these industries can be effectively upgraded and businesses can produce more efficiently.

Category Three: Industries with inadequate foundation and limited competitiveness and requiring overhaul and major input

An outstanding industry in this category is the automotive industry, especially the car industry. China can hardly compete with some other countries in this field. (1) The industry has a low level of concentrated production and the scale and size of each business is limited; (2) the industry has low technological level and limited R&D capabilities;(3) Low production efficiency and high production cost. In the post-WTO era, the automotive industry will face a tough battle in competing with foreign automakers.

Solution: A new approach should be adopted in the short grace period to narrow the gap between China and the developed countries.

(1) Optimize the structure of the automotive industry and to readjust the layout of the manufacturing of auto components; (2) Enhance technological cooperation and joint development with foreign auto manufacturers; (3) Set up a complete distribution and after-care network.

Part III Reform the government's role in controlling and managing the macro-economy to facilitate the industrial development of China.

China's accession to WTO entails a new mode of management of the macro-economy by the government. Briefly, this can be described in four points:

(1) It is imperative to update the government functions, both at the concept level and practice level. The command economy legacies are not only the obstacle on the track of the socialist market economy, but also a barrier on China's way to WTO. The relevant government departments should further liberate their minds and update their thinking. Instead of taking care of the microeconomic entities, the government should focus on the macroeconomic activities and management. They will have to discard the pure administrative orders and resort more to laws, regulations and market economy tools such as interest rate, exchange rate and tax rate for successful macroeconomic control.

(2) Steps should be taken to accelerate the improvement and perfecting of the socialist market economy. Normal circulation order should be maintained, and the national unified market system should be established. China's market will be more accessible in the post-WTO era and foreign commodities and capital can enter the Chinese market more easily. Under such circumstances, we also need to create opportunities for domestic businesses to enter the markets the access to which is promised to the overseas investors. In terms of rights of import and export as well as the field, area and scope for investment, the domestic and the foreign enterprises will enjoy equal treatment.

(3) The industrial security system should be completed and fortified. After the entry into WTO, it is urgent to improve the Regulations on Anti-Dumping and Anti-Subsidy and to draw up the Regulations of the Measures for Security, centering on protecting China's industrial security and countering the unfair competition of foreign enterprises. As for the "infant industries" which are comparatively deficient in competitiveness, protective measures can be taken, according to the relevant principle of the WTO, to safeguard the industrial security.

(4) It is vital to enhance the comprehensive quality and competitive capability of enterprises. The establishment of a modern corporate system and the transformation of the operational mechanism of enterprises should be quickened. In order to form a more rational scale of economy, the readjustment and restructuring should be accelerated through merge, association and regrouping. The management of enterprises should be strengthened and improved, so as to upgrade the entire quality of the business. Adopt advanced managerial methods and borrow from successful managerial experiences. The technology innovative capability should be boosted by speeding up the technological improvement. It is of great importance for large enterprises to set up technological development centers and to increase input in technological development. Attract and train the right technological personnel. Furthermore, these enterprises can independently conduct research and development of the core technologies and leading products with their owned intellectual property rights. A city-based service system supporting the technology innovation of small and medium-sized enterprises will be set up. To upgrade

products and technology, the product mix will be optimized through improving the present production techniques and manufacturing equipment with advanced technology.

I wish the Conference a complete success.

Thank you.

