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# **ASSESSING THE IMPACTS OF CHINA'S ACCESSION TO THE WTO**

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## **ABSTRACT**

This paper aims to provide a comprehensive analysis of the impact of China's accession to the WTO after 22 years, from the perspective of political, economic, and social impacts. The findings of this paper demonstrate that China's accession has had a generally positive impact on its politics and economy. China's international standing has been increasing due to its growing economy. With the rapid growth in trade flow, China has experienced continuous trade surpluses. The labor-intensive manufacturing industry has experienced significant growth, particularly in electronics, textiles, and clothing. Although the automotive and agriculture industries have struggled to compete with international enterprises. However, the social impact that WTO accession has brought to the country was generally negative. Income inequality and educational attainment in China remain concerns post-accession. These findings can inform relevant policymakers and stakeholders in developing appropriate measures for the future.

**Keywords: World Trade Organization (WTO), China, trade, import, export**

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## List of Abbreviations

AIIB	Asian Infrastructure Investment Bank
ATC	Agreement on Textiles and Clothing
BRI	Belt and Road Initiative
DFAC	Dongfeng Automobile Company
DSB	Dispute Settlement Body
ETDZs	National Economic and Technological Development Zones
EU	European Union
FAW	First Automotive Works
FDI	Foreign direct investment
FIE	Foreign invested enterprises
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GM	General Motors
GSP	Generalized system of preferences
IMF	International Monetary Fund
IPR	Intellectual property rights
ITO	International Trade Organization
LDC	Least developed countries
MFN	Most favored nation principle
NTM	Non-tariff measures
OECD	Organisation for Economic Co-operation and Development
PNTR	Permanent Normal Trade Relations
RMB	Renminbi
SAIC	Shanghai Automotive Industry Corporation
SCM	Subsidies and Countervailing Measures
SDT	Special and differential treatment
SEZs	Special economic zones
SOE	State Owned enterprise
TFP	Total factor productivity
TPP	Trans-Pacific Partnership
TPU	Trade Policy Uncertainty
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
USD	United States dollar
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

## **INTRODUCTION**

After 15 years of negotiations, China became the 143rd member of the World Trade Organization (WTO) on December 11, 2001. During the negotiation process, China made a number of commitments to eliminate certain non-tariff protection measures and provide tariff concessions on trade in goods and services to other WTO members. In the meantime, as a member of the WTO, China is entitled to the same provisions and trade regulations as other member countries, such as national treatment and most favored nation treatment granted by other WTO members, as well as individual special and differential treatment as a developing country.

During the early stages of China's accession to the WTO, experts and scholars made predictions regarding the potential impacts of China's accession to the WTO on various industries, including both positive and negative impacts (Shafaeddin, 2002; Boden, 2012). Subsequently, this topic became a contentious issue, with ongoing controversies surrounding the impacts of China's WTO accession.

By now, it has been 22 years since China's accession to the WTO, more reliable data and evidence from various sectors in China have become available, enabling more accurate assessments of the impact of China's accession on the country's society. As a result, analyzing the effects of China's accession to the WTO can provide insights into the current situation of various sectors, allowing relevant government authorities and stakeholders to take necessary countermeasures.

The purpose of this paper is to provide a comprehensive analysis of the positive and negative impacts of China's accession to the WTO by examining the political, economic, and social changes that have taken place since its accession. To accomplish this goal, a literature review of the political, economic, and social aspects of China's accession to the WTO will be conducted. Furthermore, WTO documents regarding China's accession, along with official statistics from China's National Bureau of Statistics over the past decades will be analyzed in order to examine changes in various industries and sectors to provide a valid basis for the research, which will be summarized in this paper.

This paper is divided into four chapters. The first chapter introduces the background of China's accession to the WTO and provides an overview of the major commitments made by China upon its accession, including the reduction of tariffs and the elimination of non-tariff measures on a wide range of products, as well as some fundamental treatments to which China has been entitled as a WTO member. The second chapter provides a detailed analysis of the positive impact of China's accession to the WTO in terms of both political and economic implications. Among the political aspect, the analysis focuses on the changes in China's international standing. On the economic aspect, the economic impact of market access, as well as specific manufacturing and service sectors are analyzed based on the examination of import and export



data from recent decades. The third chapter analyzes the negative impacts of China's accession to the WTO in terms of political, economic, and social implications. Based on the data from the Chinese Statistical Yearbook, the chapter provides a detailed analysis of the identified negative impacts. Among the political aspect, the analysis focuses on the increasing trade policy uncertainty (TPU) and its effects. Economically, the impacts on China's agricultural and automotive industries are thoroughly analyzed. On the social level, the issues of income and labor distribution, as well as educational attainment will be focused. Finally, the fourth chapter provides a comprehensive summary of the findings presented in the previous chapters and draws the main conclusions of this study. The chapter summarizes the positive and negative impacts of China's accession to the WTO and provides recommendations for future policies in order to mitigate the negative impacts and enhance the positive impacts of China's accession to the WTO.

## **CHAPTER 1: THE ACCESSION OF CHINA TO THE WTO**

The aim of this chapter is to provide a comprehensive overview of China's accession to the WTO. To achieve this objective, the chapter is divided into four distinct sections. The first section outlines the historical background of the GATT and the WTO, as well as the process of China's accession to the WTO. The second section discusses the commitments made by China upon its accession. The third section focuses on the main entitlements that China derived from its WTO membership, while the last section provides an overview of China's accession process to the WTO.

### **1.1. The background of China's accession to the WTO**

#### ***1.1.1. The history of the GATT/WTO***

After the Second World War, the United Nations Economic and Social Council established a Preparatory Committee in 1946 to liberalize global trade. The committee consisted of 23 members who were responsible for drafting the charter of the International Trade Organization (ITO) and negotiating the reduction of tariffs and other trade barriers. However, due to the multiparty negotiations and differences in foreign economic policy between the members, it was challenging to adopt a charter for the ITO in the short term. Consequently, in 1947, the 23 participating countries signed the Protocol of Provisional Application in Geneva, leading to the creation of the General Agreement on Tariffs and Trade (GATT). The scope of this agreement was limited to trade in goods and served as a predecessor to the WTO (WTO, 1947; WTO, 2023a).

The eighth round of trade negotiations, known as the Uruguay Round, was launched in 1986 and took seven and a half years to complete. After the completion of the Uruguay Round, the WTO Agreement which established the World Trade Organization was signed and went into force on 1 January 1995. The WTO Agreement contains an updated version of the GATT, known as GATT 1994. The GATT 1994 forms part of the WTO along with the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) (WTO, 2001).

#### ***1.1.2. China's accession process to the GATT/WTO***

It is worth mentioning that China, then known as the Republic of China, was one of the founding members of the GATT, but announced its withdrawal from the GATT in 1950. In 1986, China, recalling its status as one of the original contracting parties to the GATT, submitted a request to the GATT contracting parties to resume its status as a contracting party (GATT, 1986).

The process of China's accession to the WTO was overseen by a Working Party established under the GATT in 1987, with its focus on China's foreign trade regime for goods. Following the establishment of the WTO in 1995, China's accession process was transformed into a WTO

Working Party, and the scope was broadened to include foreign trade in services, as well as tariff and non-tariff measures, and regulations on intellectual property rights (WTO, 2001a).

The negotiations for China's accession to the WTO were a prolonged and complex process that took 15 years. After studying, it was concluded that several factors contributed to the complexity of the process of China's accession.

Firstly, China's complex market economy has been a key challenge in aligning its foreign trade regime with the rules and regulations of the WTO. The GATT/WTO has been a key driver of global trade liberalization and integration, requiring member states to adopt transparent and market-oriented trade policies. In the meantime, China has undergone a transition from a planned economy to a market economy in 1978 since the introduction of the 40 years Reform and Opening Up policy. This transition has been an extensive and complex process, requiring fundamental changes in economic governance, market openness, and trade policies. This extensive and complex process can be a significant obstacle for China in adapting its trade policies to comply with WTO rules and regulations.

Secondly, multilateral negotiations during the process of accession to the WTO have been a major reason for the delays in China's accession. Negotiations of bilateral, plurilateral, and multilateral agreements between the candidate country and existing contracting parties are conducted before the accession. This process can be time-consuming and complex, requiring the candidate country to make significant changes to its trade policies to comply with WTO rules. Prior studies have shown that many candidate countries have been negotiating for WTO accession for decades. These countries often complain that existing WTO members attempt to impose terms upon them that go beyond those of existing WTO members, known as "WTO-plus" provisions. On the other hand, incumbent members often complain that applicants do not move quickly enough to make their policies comply with WTO rules (Jones & Gai, 2012).

Thirdly, non-tariff barriers have been a significant challenge to China's accession to the WTO. In 1992 and 1993, China presented its Existing Tariff and Non-Tariff Measures to the GATT (GATT, 1992-1993). Some of these non-tariff measures, such as subsidies, import licenses, import quotas, and specific import bidding requirements, were perceived as trade restrictive. As a result, China has demonstrated advancement in reducing import restrictions on various categories of products. To illustrate, in 1993, it imposed import restrictions on 53 categories of products, but by 1999, this number had been diminished to 35 categories.<sup>1</sup> In addition, the Chinese delegation has repeatedly submitted non-tariff measures that are subject to phased elimination (WTO, 1997-2001) and the yearly subsidies associated with the non-tariff measures are presented in Appendix II.

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<sup>1</sup> See paragraph 134 of the report of the working party on the accession of China, 10 November 2001, WTO Doc. WT/MIN(01)/3.

Fourthly, China's agricultural import policies have been a critical area of concern among member states. Due to the fact that China based its policies on domestic agricultural supply, especially on balanced supply and demand of grains, member states have expressed concern about China's agricultural import policies, including the allocation of tariff quotas.<sup>2</sup> These policies have been the subject of numerous discussions and negotiations in WTO forums, with some members claiming that China's policies may not comply with its WTO obligations. On the one hand, the high agricultural export subsidies were one of the key issues raised by WTO contracting parties, giving Chinese agricultural producers an unfair advantage in the global market. On the other hand, the contracting parties believe that the tariffs on agricultural goods are high, and China was subject to reducing tariffs on agricultural products (WTO, 1996).

Last but not least, the Intellectual Property Rights (IPR) issue has been one of the major challenges encountered in China's accession to the WTO. The establishment of China's IPR system can be traced back to the late 1970s, and China joined the World Intellectual Property Organization (WIPO) in 1980. Nevertheless, China's IPR protection system remains in its nascent stage of development and is yet to meet international standards. To comply with the TRIPS Agreement, China has made significant efforts to enhance its IPR protection regime. Specifically, China has made changes to its patent law to align it with TRIPS requirements. In addition, the Working Party report notes that amendments to the Copyright Law, the Trademark Law, and other laws that relate to TRIPS will also be implemented upon China's accession.<sup>3</sup>

In summary, China's accession process has not been a smooth process. To ensure that the foreign trade regime and tariff regulations are in line with the requirements of the GATT/WTO, China has undertaken the above series of institutional reforms and tariff reductions. Finally, after 15 years of negotiations, China became the 143rd member of the WTO in November 2001.

## **1.2. China's commitments upon accession to the WTO**

After China's accession to the WTO, the country became obligated to adhere to all WTO rules and regulations. As a result, China is required to align its domestic laws and regulations with the provisions outlined in the agreements that pertain to trade in goods (GATT), services (GATS), the trade-related aspects of intellectual property rights (TRIPS), and the control of foreign exchange (WTO, 2001c).

The primary impact of China's WTO accession on its economy was the reduction of both tariff and non-tariff barriers. Additionally, the implementation of non-discriminatory treatment between domestic and foreign firms, which is referred to as national treatment provisions, was required. This included the elimination of practices such as anti-dumping and subsidies to loss-making State-Owned Enterprises (SOEs) (Shafaeddin, 2002).

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<sup>2</sup> (WTO Doc. WT/MIN(01)/3), paragraphs 230 and 231.

<sup>3</sup> *Ibidem*, paragraph 252.

### *1.2.1. The reduction of tariffs*

In order to comply with the relevant provisions of the GATT, China committed to gradually removing trade barriers, particularly by reducing tariffs, upon joining the WTO. This commitment aimed to ease tariff restrictions and broaden market access for foreign trade. The following table illustrates the commitments made by China regarding the overall average bound tariff, as well as the average bound tariff for agricultural goods and industrial goods (The State Council of China, 2012). Some of the terms of China's accession to the WTO do not seem to allow it to have longer implementation periods for agreements, instead, the terms oblige China to liberalize its imports during the early years of the accession. Other commitments concerning tariff reductions and exemptions were scheduled to be fulfilled by 2005, with no deadline later than 2010 (WTO, 2001d).

Table 1 presented below indicates that the tariff concessions committed by China's accession to the WTO will be decreasing year by year, especially at a significantly lower level by 2004. The overall tariff level will be reduced to 10 percent in 2008, and the average tariff level for industrial products will be reduced to 9.2 percent, while the average tariff level for agricultural products will be reduced to 15.1 percent in the same year.

Table 1 Commitments on tariff concessions: overall tariff levels

Year	Overall Tariff Level	Average tariff level for industrial products	Average tariff level for agricultural products
2000	15.6%	14.7%	21.3%
2001	14.0%	13.0%	19.9%
2002	12.7%	11.7%	18.5%
2003	11.5%	10.6%	17.4%
2004	10.6%	9.8%	15.8%
2005	10.1%	9.3%	15.5%
2006	10.1%	9.3%	15.5%
2007	10.1%	9.3%	15.5%
2008	10.0%	9.2%	15.1%

Source: The State Council of China, 2001

In 2021, the representative of China, speaking at the High-Level Forum on the 20th anniversary of China's WTO accession, stated that there has been a significant reduction in the average current tariff rate on manufactured goods in China. Specifically, the tariff rate has decreased from 14.8% to the current rate of 7.4%, which is 2.8 percentage points lower than the tariff reduction commitment that China made during its accession to the WTO (WTO, 2021a). This reduction in tariff rates reflects China's commitment to upholding its obligations as a member of the WTO and promoting a more open and transparent trading system.

### 1.2.2. The elimination of non-tariff measures

Trade barriers are not the only factor that creates competitive pressure on import-competing industries. Non-tariff measures such as subsidies can also contribute to this pressure. This can be particularly true in the agricultural industry in China which relies heavily on government subsidies to remain competitive. During the negotiations, certain members of the Working party observed that China had a large number of NTMs that were believed to be trade-restrictive or trade-distorting. As a result, China pledged not to introduce, re-introduce, or apply non-tariff measures except for those specifically mentioned in Annex 3 (Non-tariff measures subject to phased elimination) of the Draft Protocol. The measures shall be phase eliminated based on the schedule.<sup>4</sup>

According to the Protocol of Accession, China committed to the phased elimination of non-tariff measures, which includes import licenses, import quotas, and specific import bidding requirements. Annex 3 of the Protocol lists 377 items subject to phased elimination, with around 43 percent (162 items) to be eliminated upon accession, 21 percent (80 items) during the second year, and the remaining items to be eliminated by 2005. As shown in the following Table 2, the elimination of non-tariff measures focuses on agricultural products, automobiles and related parts, and audio and video recording equipment, among other categories. Moreover, during the phase-out period related to the elimination of mentioned non-tariff measures, China would implement the quota growth rates listed in Annex 3 until the relevant measures are fully eliminated by the deadline.<sup>5</sup>

Table 2 Main products of non-tariff measures to be eliminated (product quota)

Quota Category		Unit	Initial Quota Volume/Value	Annual Growth Rate	Elimination Time (Year, 1 January)
1	Processed oil	Million Metric Tons	16.58	15%	2004
2	Sodium cyanide	Million Metric Tons	0.018	15%	2002
3	Chemical fertilizer	Million Metric Tons	8.9	15%	2002 (Part of the products: upon accession)
4	Natural rubber	Million Metric Tons	0.429	15%	2004
5	Tires of rubber used on automobiles	Million Pieces	0.81	15%	2002 (Part of the products: upon accession or 2004)
6	Motorcycles and key parts	US\$ Million	286	15%	Motorcycles: 2004, key parts: 2003

<sup>4</sup> (WTO Doc. WT/MIN(01)/3), paragraph 122.

<sup>5</sup> *Ibidem*, paragraph 126.

7	Automobiles and key parts	US\$ Million	6000	15%	Automobiles: 2005, other vehicles: 2004, key parts: upon accession or 2003
8	Air conditioners and compressors	US\$ Million	286	15%	Upon accession or 2002
9	Recording apparatus and key parts	US\$ Million	293	15%	2002
10	Magnetic sound and video recording apparatus	US\$ Million	38	15%	Upon accession or 2002
11	Recorders and transport mechanisms	US\$ Million	387	15%	2002
12	Color TV set and TV tuners	US\$ Million	325	15%	Upon accession or 2002
13	Crane lorries and chassis	US\$ Million	88	15%	2004
14	Cameras	US\$ Million	14	15%	2003
15	Wrist watches	US\$ Million	33	15%	2003

Source: WTO Doc. WT/MIN(01)/3, 2001; the State Council of China, 2001

### ***1.2.3. National treatment principle***

The GATT Article III, GATS Article XVII, and TRIPS Article III outline the importance of the national treatment principle, requiring WTO members to grant foreign goods, services, and items of intellectual property the same treatment as they give to their own domestic products, services, and items of intellectual property. This means that once goods or services from one WTO member state enter the territory of another member, they should not be subject to any higher taxes or fees than those imposed on the same or similar domestically produced goods or services.

In accordance with the report of the working party on the accession of China, China committed to adhering to the principle of national treatment in trade in goods, services, and items of intellectual property.

In terms of goods and services, China committed that, by its accession to the WTO, China would repeal and suspend all existing laws, regulations, and other measures that were inconsistent with the principles of national treatment rules of the WTO.<sup>6</sup> Moreover, China agreed to provide full GATT national treatment in specific areas such as after-sales services, pharmaceutical products, cigarettes, spirits, chemicals, boilers, and pressure vessels. Although,

<sup>6</sup> (WTO Doc. WT/MIN(01)/3), paragraph 22.

for pharmaceuticals, spirits, and chemicals, China reserved the right to use a one-year transition period from the date of accession to make any necessary amendments or repeal relevant regulations.<sup>7</sup>

In terms of foreign exchange and payments, China noted that to encourage foreign direct investment, China had granted national treatment to foreign invested enterprises (FIEs) in exchange administration.<sup>8</sup>

Regarding intellectual property, some members of the working party questioned certain provisions of China's copyright and trademark laws, as well as China's Rules on Banning the Infringement of Business Secrets (November 23, 1995) did not provide national treatment to foreign right holders. In response to these concerns, China agreed to amend relevant laws, regulations, and other measures to ensure that the national treatment of foreign rights holders in all intellectual property rights (IPRs) is fully consistent with the TRIPS Agreement.<sup>9</sup>

#### ***1.2.4. Most-favored-nation (MFN) principle***

The GATT Article I, GATS Article III, and TRIPS Article IV outline the most-favored-nation principle, requiring China to treat all members of the WTO equally. According to the WTO's most-favored-nation principle, if a member improves the benefits it grants to another member, such as granting a lower tariff on one product, it must also give that "better" treatment to other Members of the WTO. The objective is to eliminate discrimination between trading partners.

China is committed to the MFN principle in several respects. First, in terms of tariffs, while listing the scope of tariff exemptions, China committed to adopt and apply tariff reductions and exemptions so as to ensure MFN treatment for imported goods.<sup>10</sup> This means that the scoped duty reductions and exemptions outlined in paragraph 109 of the report will be granted to all WTO members. Second, in terms of intellectual property rights, China is committed to the full compliance of China's relevant laws, regulations, and other measures with the most-favored-nation treatment of the TRIPS Agreement.<sup>11</sup> Lastly, in government procurement, China states that China would conduct its procurement in a transparent manner, and provide all foreign suppliers with equal opportunity to participate in that procurement pursuant to the principle of MFN treatment.<sup>12</sup>

### **1.3. China's entitlements after its accession to the WTO**

However, as a member of the WTO, China is entitled to the same provisions and trade regulations as other member countries, thereby benefiting from equal treatment in international

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<sup>7</sup> (WTO Doc. WT/MIN(01)/3), paragraph 23.

<sup>8</sup> *Ibidem*, paragraph 33.

<sup>9</sup> *Ibidem*, paragraphs 255 and 256.

<sup>10</sup> *Ibidem*, paragraph 111.

<sup>11</sup> *Ibidem*, paragraph 256.

<sup>12</sup> *Ibidem*, paragraph 339.



trade. For instance, it will be entitled to national treatment, most-favored-nation treatment, and the right to special and different treatment provisions as a developing country. In addition, China will be granted permanent trade status in its major export markets such as the United States. This grants China the privilege to conduct trade without the need to negotiate trade agreements with its major export partner on an annual basis.

### *1.3.1. Special and differential treatment provisions (SDT)*

Special and differential treatment (SDT) provisions are special privileges granted to developing countries by the WTO. These provisions allow developed countries to offer more favorable treatment to developing countries than other WTO members, such as longer implementation periods for agreements, and measures aimed at boosting trade opportunities for these countries. These provisions are designed to safeguard the interests of developing member countries and help ensure market access liberalization.

A majority of the WTO membership is comprised of developing countries. However, the WTO has no official definitions of "developed" and "developing" countries. Members are allowed to self-declare their status as either "developed" or "developing". Nevertheless, other members are given the right to contest a member's decision to take advantage of the provisions intended for developing countries (WTO, 2023). This allows for a more democratic and transparent process in determining a country's status and the privileges it is entitled to receive.

As stated in the introductory remarks of the report from the working party on China's accession to the WTO,<sup>13</sup> the representative of China stated that although significant progress has been made in its economic development, it still considers itself a developing country and therefore should be entitled to all the special and favorable treatment given to developing country members under the WTO Agreement. This statement was made in accordance with the provisions of the WTO Agreement and emphasizes China's stance as a developing country, entitled to the benefits and privileges afforded to such countries (WTO, 2001b).

During the bilateral negotiations conducted with the United States and the European Union, China agreed to relinquish most SDT provisions and made many pledges that are WTO-plus in nature. For instance, China pledged not to seek to invoke Article 27.8, 27.9, and 27.13 of the Agreement on Subsidies and Countervailing Measures (SCM Agreement) (WTO, 2001b; Hu, 2019). In addition, China committed to eliminate all export subsidies covered under Article 3.1a of the SCM Agreement upon accession,<sup>14</sup> reflecting from the side that China, as a developing country, relinquished its right of the 8-year transitional elimination period of subsidies outlined in Article 27.2.<sup>15</sup>

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<sup>13</sup> (WTO Doc. WT/MIN(01)/3), paragraph 8.

<sup>14</sup> *Ibidem*, paragraphs 167 and 168.

<sup>15</sup> See Article 27.2 of the Agreement on Subsidies and Countervailing Measures (SCM Agreement).

However, the representative of China made clear their intention to retain the right to benefit from the provisions of Articles 27.10, 27.11, 27.12, and 27.15 of the SCM Agreement.<sup>16</sup> These provisions are intended to prevent countervailing duty investigations against developing members when the value or quantity of the subsidized product is small (de minimis subsidies).

In conclusion, despite China having declared itself as a developing country, it has agreed to give up many of the special privileges provided to developing countries under the SDT provisions.

### ***1.3.2. Generalized system of preferences (GSP)***

The Generalized System of Preferences (GSP) is one of the most extensive SDTs available within the WTO. This measure was made possible through the Enabling Clause adopted under the GATT in 1979. Since then, developed countries can unilaterally decide to provide non-reciprocal preferential treatment, such as zero or low import tariffs, for products originating from developing countries (WTO, 2023b).

Since the implementation of the GSP, 40 countries have given China GSP tariff preferences, most of which are important trading partners of China, such as the EU member states and the UK, Russia, Canada, Japan, etc. As a result of China's significant economic growth and the consequent improvement in the standard of living for its citizens over the past several decades, the country has graduated from a low-income or lower-middle-income economy to an upper-middle-income country according to the World Bank's criteria in 2011. This has led to a number of countries that grant GSP treatment, such as the European Union, announcing the cancellation of such treatment for China in recent years (European Commission, 2021). As of December 2021, 32 countries have removed China from the GSP treatment list, including EU member states, the UK, Canada, Turkey, Ukraine, and Liechtenstein. The only countries that still retain GSP treatment for China are Norway, New Zealand, and Australia (General Administration of Customs, China, 2021).

### **China grants duty-free treatment for LDCs**

With China's sustained economic growth, the country has demonstrated its commitment to supporting the development of Least Developed Countries (LDCs) by granting preferential tariff treatment to these nations since 2010 (General Administration of Customs, China, 2010). China's duty-free treatment covers 42 beneficiary countries and has continued to improve, with China announcing zero tariffs on 98% of tariff lines for 16 countries, thereby expanding the range of products eligible for this treatment (Ministry of Finance, China, 2021). In summary, As China's economy continues to expand and advance, it is increasingly granted less preferential treatment through the GSP from developed countries. Conversely, China has made efforts to provide more comprehensive and preferential tariff treatment to the LDCs.

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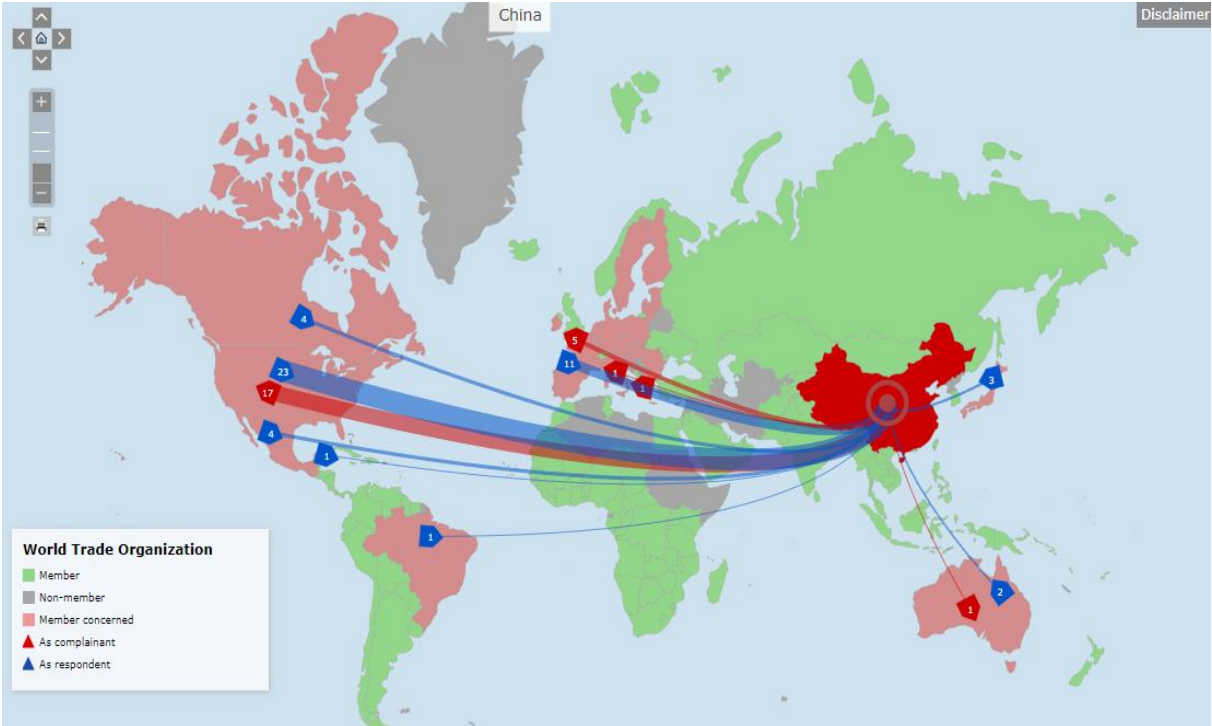
<sup>16</sup> (WTO Doc. WT/MIN(01)/3), paragraph 171.

**1.3.3. The dispute settlement mechanism**

The Dispute Settlement Body (DSB) is comprised of all member governments within the WTO and holds the responsibility for addressing any disputes that arise among its member countries. When a member government feels that another member is not fulfilling its obligations or commitments under the WTO agreements, a dispute may arise. To resolve these disputes, the WTO employs a process of negotiation. If negotiations prove to be unsuccessful, a panel of experts can be established at the request of the concerned members to review the dispute and make a ruling. The findings of the panel can be appealed before the Appellate Body of the WTO on legal questions. Since the establishment of the WTO in 1995, 616 disputes have been brought to the organization and over 350 rulings have been made (WTO, 2023c).

Since its accession to the WTO in 1995, China has been an active participant in the organization's dispute settlement mechanism. The following Figure 1 illustrates China's participation in the WTO's dispute settlement mechanism. As of today, 49 disputes have been raised against China, with the largest number coming from the United States and the European Union. The majority of these disputes center around non-tariff measures and intellectual property rights. Meanwhile, China has taken a proactive approach by initiating 23 disputes, 17 of which were against the United States and 5 against the European Union. These disputes primarily concerned Anti-Dumping and Countervailing Duty Measures. Side by side, this reflects the high trade activity with the US and the EU, China's largest international trade partners. In addition, China has been involved in 192 cases as a third party (WTO, 2023c).

Figure 1 Disputes involving China



Source: WTO, 2023

## **1.4. Summary**

To summarize, China has undergone significant changes since its accession to the WTO, particularly with regard to its foreign trade regime. As a developing economy in the early stages of market liberalization, China has made significant concessions both before and after becoming a member of the WTO, in order to accommodate the requirements of the organization. The commitments made in goods and services were complicated and had to be executed upon accession or within five or ten years of phase-in periods. These concessions include the reduction of tariff barriers on a wide range of goods such as agricultural products, textiles, and other manufactured goods, the elimination of non-tariff measures such as export subsidies and import licenses, as well as the implementation of the principles of MFN treatment and national treatment in accordance with the relevant provisions of the WTO. Such principles, as well as the removal of trade barriers, have made it easier for foreign enterprises to conduct business in China, while also promoting fair competition in the country's domestic market.

Despite the challenges associated with transitioning to a more open and competitive international trading environment, China has benefited from its membership in the WTO. Among these benefits include the automatic access to permanent trade rights of several major trading partners such as the United States and EU member states, access to MFN treatment provided by other member countries, and individual SDTs as a developing country.

## **CHAPTER 2: POSITIVE IMPACTS OF CHINA'S ACCESSION TO THE WTO**

The aim of this chapter is to comprehensively analyze the positive impacts of China's accession to the WTO. To achieve this objective, the chapter is structured into three sections. The first section examines the political impacts of China's accession, especially its shifting role in international relations. The second section delves into the economic impacts of China's accession, with an emphasis on the benefits of increasing market access. This includes an analysis of the impacts on trade flows and GDP, China's manufacturing industry, specifically in the electrical equipment, textiles, and clothing sectors, as well as its service sector, particularly in terms of increased foreign direct investments (FDI) and the financial sector. The last section provides an overview of the positive impacts that China's accession has brought to the country.

### **2.1. Political impact**

China's accession to the WTO has had significant implications not only for its economy but also for its international relations. In the field of international relations, a nation's power provides it the ability to influence the behavior of other countries, with population, territory, natural resources, economy, and military being the primary elements of national power (Jablonsky, 2008). As a result, the economy is inextricably linked to diplomacy, and joining the

WTO is regarded as a component of China's foreign policy. By joining the WTO, China aims to maximize its national interests, obtain negotiating and permanent trading rights with other member countries, place itself on an equal footing with other member countries, and enhance its voice and influence in global affairs.

As pointed out by Alan Wolff, the WTO’s Deputy Director-General, trade and foreign policy have been historically interconnected, and a failure to maintain openness to trade may lead to instability and pose a threat to both domestic and international peace (WTO, 2023d).

Furthermore, former U.S. President Clinton acknowledged that the driving factors of international relations were shifting from nuclear capacities to flows of foreign direct investment and trade (Foreign Policy, 2009). Therefore, the decision of the United States to grant China permanent normal trading relations (PNTR) status and admit it into the WTO has far-reaching geopolitical implications that go beyond economic considerations (Pei M. , 2001).

From an economic perspective, China's accession to the WTO has resulted in a significant increase in its import and export trade flows. According to World Bank Table 3, China's total import and export trade flow reached 4,658.67 trillion US dollars in 2020, making it the world's largest trading country. Moreover, China's GDP has risen from the sixth largest in the world at the time of its WTO accession to the second largest economy in the world, just behind the United States, as shown in Figure 2. Therefore, joining the WTO enabled China to accelerate its economic growth, strengthen its economic power, and enhance its international standing.

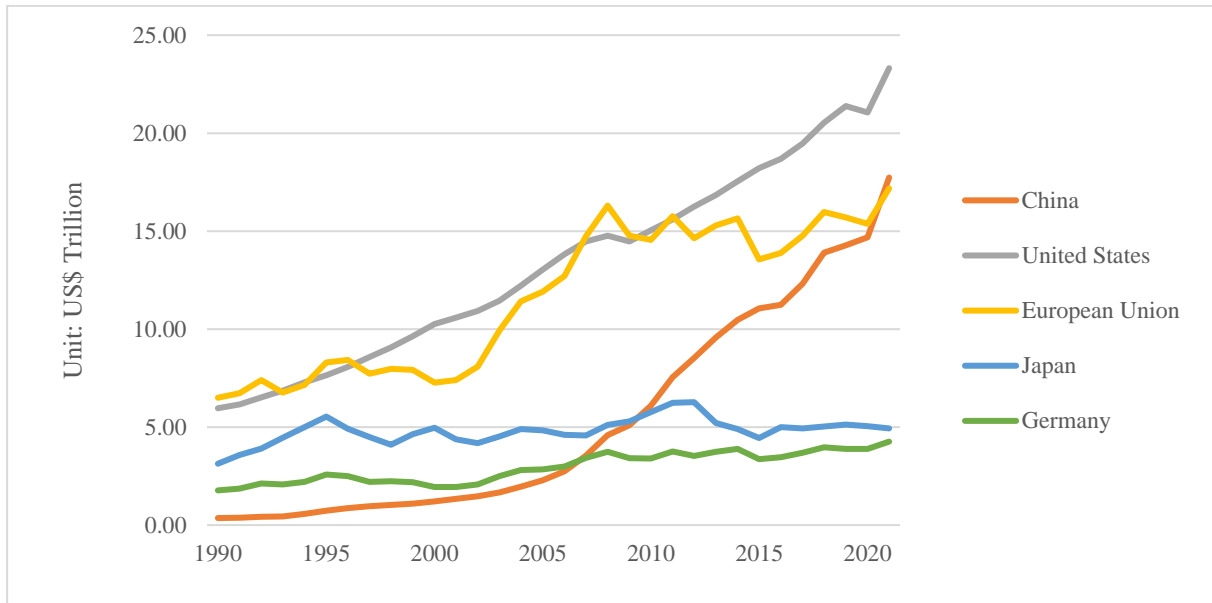
Table 3 Total trade flow by country (2001-2020)

Unit: US\$ Billion

Country	2001	2002	2003	2004-2017	2018	2019	2020
<b>World</b>	<b>13084.47</b>	<b>13776.97</b>	<b>16099.77</b>	...	<b>40599.18</b>	<b>39262.99</b>	<b>36458.91</b>
<b><u>World annual growth rate</u></b>	=	<u>5%</u>	<u>17%</u>	...	<u>10%</u>	<u>-3%</u>	<u>-7%</u>
<b>United States</b>	1869.98	1893.16	2027.57	...	4276.74	4211.77	3835.64
<b>Germany</b>	1057.45	1106.45	1350.29	...	2855.14	2733.16	2559.02
<b>Japan</b>	752.64	754.34	855.47	...	1486.72	1426.75	1276.68
<b>United Kingdom</b>	638.13	658.06	737.43	...	1162.53	1160.82	1029.87
<b>France</b>	583.46	608.72	720.65	...	1227.91	1199.57	1071.34
<b>China</b>	509.65	620.77	850.99	...	4620.05	4578.49	4658.67
<b><u>China's trade flow share</u></b>	<u>3.90%</u>	<u>4.51%</u>	<u>5.29%</u>	...	<u>11.38%</u>	<u>11.66%</u>	<u>12.78%</u>
<b><u>China's annual growth rate</u></b>	=	<u>22%</u>	<u>37%</u>	...	<u>12%</u>	<u>-1%</u>	<u>2%</u>

Source: World Integrated Trade Solution, 2023

Figure 2 Total GDP of the major countries and regions (1990-2020)



Source: World Bank, 2023

However, from the perspective of the United States, China's expanding power and influence pose a threat to American hegemony in the Asia-Pacific region and beyond. The United States sees China's growing assertiveness in its foreign policy, as well as its geo-economic offensive through the Belt and Road Initiative (BRI) as a threat to its strategic interests and international order (M. Walt, 2021). In addition, the Asian Infrastructure Investment Bank (AIIB), a China-led international organization, has already attracted several countries that are key players in the global economy. Experts believe that the AIIB might become a viable alternative to the Bretton Woods institutions (Degterev, Ramich, & Tsvyk, 2021), demonstrating China's growing influence in the world economic system. Furthermore, the popularity of the RMB<sup>17</sup> is becoming increasingly popular. In recent years, China has entered into bilateral currency swap agreements with a number of countries and regions, including the European Union (EU), Japan, the United Kingdom, Thailand, and South Korea (The People's Bank of China, 2023). These agreements are expected to facilitate bilateral trade and investment, promoting economic and financial development in both countries. However, analysts believe that the motivation behind these agreements is to progressively diminish reliance on the USD in bilateral transactions for political reasons, as well as to prevent the volatility of the dollar value of local currencies due to changes in US Fed monetary policy (Tran, 2022). This reflects the challenge that the RMB poses to the international standing of the US dollar.

Recent developments indicate that the international economic order is transitioning away from the Neoliberal Order toward a new Geoeconomic Order (Roberts, Choer Moraes, & Ferguson, 2019). This shift is due to the growing importance of geoeconomics, which involves using economic tools and strategies to achieve geopolitical objectives. With the development of

<sup>17</sup> The renminbi (RMB) is the official currency of China.

economic globalization, economic interests have become a significant issue in the international relations of all countries and regions. This trend has pushed the EU to take a more pragmatic approach when dealing with some sensitive political issues with other countries, including China (Che, 2011). As the EU recognizes the importance of economic relations with China, which is one of its most important trading partners.

Overall, China's accession to the WTO has had significant economic and geopolitical implications. On the one hand, it has driven China's economic expansion. On the other side, it increased China's national power and therefore, enhanced its international standing.

**2.2. Economic impact**

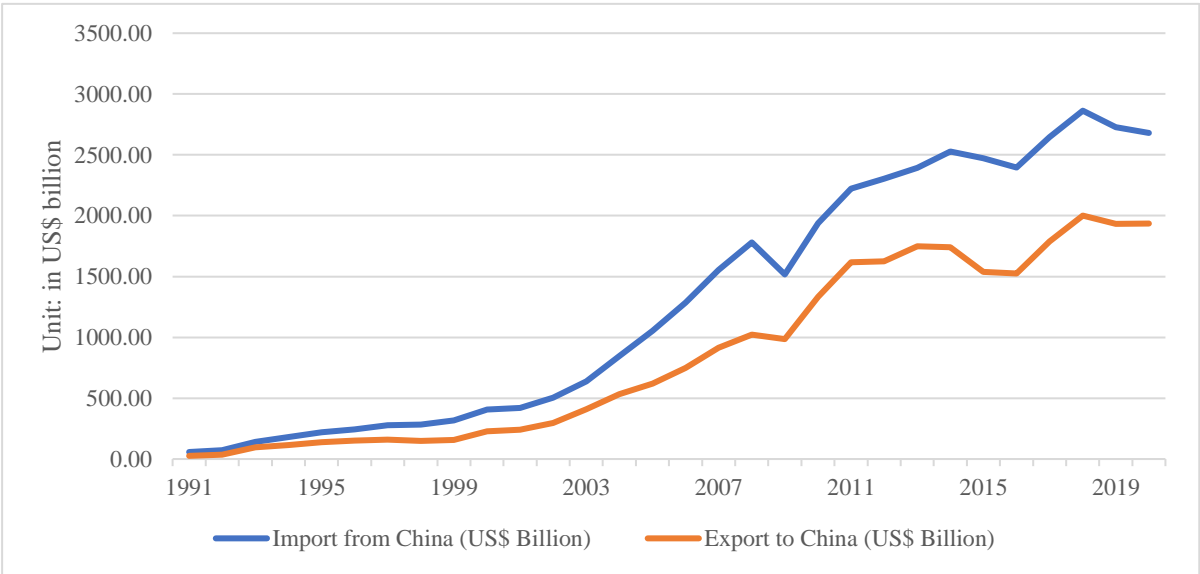
**2.2.1. Market access**

The accession to the WTO undoubtedly brings about greater market access for member countries, and China is no exception. One of the primary benefits of this accession is the reduction of tariff barriers and non-tariff barriers, which in turn leads to an increase in China's imports. This is accompanied by a significant increase in export volume as well.

**2.2.1.1. Trade flow**

The following Figure 3 presents the changes in import and export values between China and other countries over the past three decades, from 1991 to 2020, indicating a generally rising trend. China has been in a trade surplus since 1991, with its export value surpassing its import value. China's trade surplus with the rest of the world has also grown significantly since its accession to the WTO in 2001, reflecting the country's role as a major exporter of goods and services, as well as the dividends of WTO accession that have accelerated China's exports.

Figure 3 China's imports and exports (1991-2020)



Source: World Integrated Trade Solution, 2023

The most significant change in China's export and import values from 1991 to 2020, according to Appendix III and Appendix IV, is the tremendous growth in China's export value to the world, from 57.73 billion US dollars in 1991 to 2,681.37 billion US dollars in 2020. Despite a slight decrease in exports in 2009, the growth trend continued to increase. The exports of China to the United States increased significantly as well, rising steadily from 20.28 billion US dollars in 1991 to 457.16 billion US dollars in 2020. Japan and Germany's imports from China also experienced a significant increase in 2000, with Japan reaching its peak in 2007 at 143.23 billion US dollars and Germany reaching its peak in 2008 at 90.58 billion US dollars, before experiencing a slight decline in the years after. On the other hand, China's imports from Japan and the United States showed steady growth throughout the same period of time, with the value reaching 144.03 billion US dollars and 106.64 billion US dollars, respectively, in 2020.

The data suggests that China has become an important trading partner for many countries, and China's rapid growth in exports shows the country's increasing importance as a manufacturing and exporting center. The main reason for this trend is market globalization and low labor costs in China: despite the country's fast economic growth over the past three decades, manufacturing wages remain low when compared to the OECD and most East Asian countries (Adams, Gangnes, & Shachmurove, 2006, as cited in Caporale, Sova, & Sova, 2015).

The implementation of the reform and opening-up policy in 1978 shifted China's economy from a centrally planned socialist system to a market-oriented economy, while China's accession to the WTO in 2001 further accelerated this transformation process. In the next two decades, China's trade flows with the rest of the world have experienced a remarkable increase, largely due to a reduction in trade barriers.

To illustrate this point, the following Table 3 presents the total trade flow by country from 2001 to 2020, highlighting changes in China's trade flow. During this period, the total global trade flow increased from 13.08 trillion US dollars in 2001 to 36.46 trillion US dollars in 2020. The United States, Germany, Japan, the United Kingdom, and France consistently ranked among the top trading countries throughout this time span. Meanwhile, China's total trade flow has grown exponentially, increasing from 509.65 billion US dollars in 2001 to 4,658.67 billion US dollars in 2020. The proportion of China's trade flow share has also seen an upward trajectory, rising from 2.56% in 2001 to 8.36% in 2020.

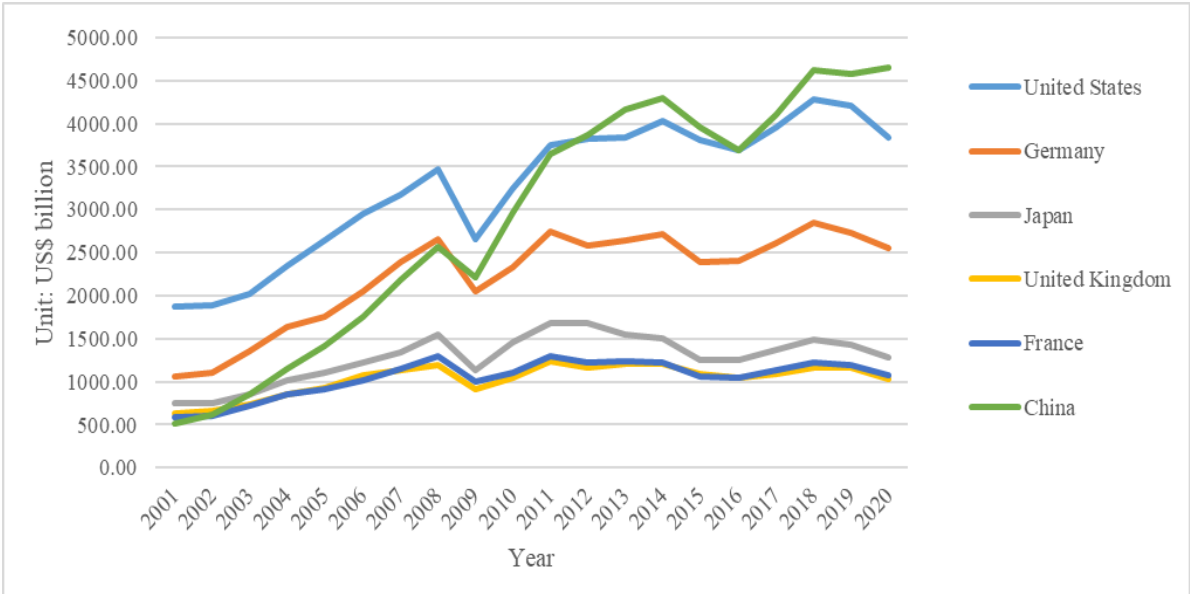
China's annual growth rate in trade flow has experienced fluctuations throughout the years, with a remarkable increase of 37% in 2003 and a decrease of 14% in 2009. Nevertheless, China's total trade flow has become an essential component of the global economy, with a rising share in the overall trade flow.

Figure 4 below illustrates the changes in China's total trade flows with its major trading partners from 2001 to 2020. It is noticeable that the trend of China's trade flows is consistent with other major trading countries in the world, demonstrating that China's economy has been closely



linked to the global economy since its accession to the WTO in 2001. Unlike before its accession to the WTO in the 1980s, as a socialist-oriented economy with a weak financial system, China's financial markets and economic performance in developed countries have a statistically weak but favorable model of impact on China's growth (Van Hoa, 2010).

Figure 4 Trade flows of the major trading nations (2001-2020)



Source: World Integrated Trade Solution, 2023

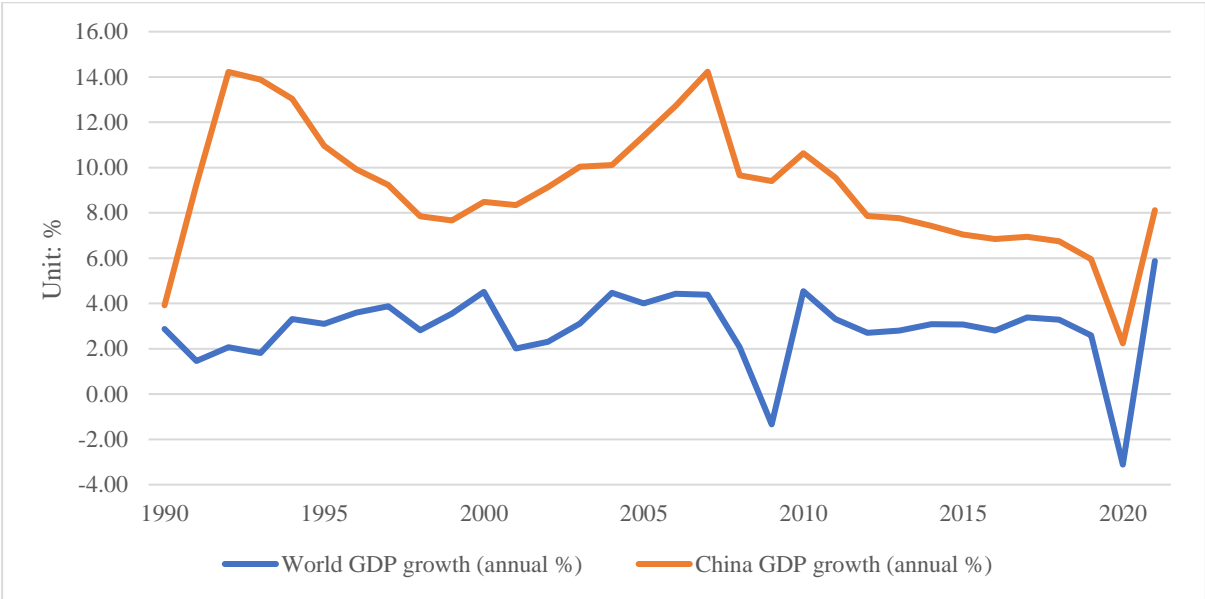
China's total trade flows increased substantially since its accession to the WTO in 2001 and up to 2008, surpassed those of other countries. However, in 2009, trade flows decreased significantly by 14%, which was attributed to the global economic crisis of 2008. According to previous research, relative to economic activity, the drop in trade is an order of magnitude larger than what was observed in the previous postwar recessions, with the exception of 2001. The collapse appears to be widespread among trading partners: trade with virtually all parts of the world decreased by a similar order of magnitude (Levchenko, Lewis, & Tesar, 2010). In 2015, the global economy grew slowly and trade flows from various countries declined, with China's trade flow declining by 8%. Among the factors were the fall in stock markets in China and the debt crisis in Greece (IMF, 2015). In 2019, China's total trade flow decreased by one percentage point as countries-imposed controls due to the global COVID-19 epidemic.

In summary, China's overall trade flows increased dramatically following its accession to the WTO. Since 2001, China's total trade flows have grown at a much faster pace than the global average, with an average annual growth rate of roughly 13% compared to around 6% for the world as a whole. Furthermore, there is a significant impact of global economic conditions and crises on China's total trade flows with its major trading partners, demonstrating that the Chinese economy has been closely linked to the global economy since its accession to the WTO.

2.2.1.2. GDP growth

China's accession to the WTO has also had a substantial positive impact on its economy. According to Figure 2, China's Gross Domestic Product (GDP) per capita grew significantly after entering the WTO, outpacing several other major GDP powerhouses. As shown in Figure 5 below, China's average annual GDP growth rate from 2001 to 2021 was 8.67%, exceeding the global average annual GDP growth rate of 2.85%. In addition, China has become the world's second-largest GDP producer, with a total national GDP of 1,773 trillion US dollars in 2021, up from the sixth position in 2001.

Figure 5 GDP annual growth (World, China, 1990-2021)



Source: World Bank, 2023

However, as demonstrated in Appendix III, China relies heavily on export-led growth, particularly exports to developed countries such as the United States, Japan, and Germany. Therefore, a weaker global economy, for instance, the financial crisis of 2007-2008 has had a significant negative influence on China's export and GDP growth (Caporale, Sova, & Sova, 2015). The potential reason is that during the financial crisis, many developed countries experienced a slowdown in economic activity, resulting in a decrease in demand for Chinese exports. This, in turn, led to a decrease in China's GDP growth rate as its export revenues decreased. This phenomenon illustrates China's increasing reliance on foreign resources, particularly from developed countries, following WTO accession. As a result, China has become more vulnerable to the external economic environment, which has increased the overall risk to its economy in comparison to the time before its accession to the WTO. Therefore, in response to the crisis, the Chinese government has implemented macro-control in an attempt to optimize the economic structure, transform the development mode, and reverse the situation of excessive reliance on foreign markets and relative lack of domestic demand for economic development (Yin, 2009).

### 2.2.2. Manufacturing sector

Table 4 shows the annual export value of manufacturing products by major countries, highlighting China's significant growth in the manufacturing sector. In 1992, China's total exports in manufacturing accounted for 6% of the global total manufacturing exports. However, by 2020, China's total manufacturing exports account for 24% of the world's total manufacturing exports, demonstrating a remarkable growth in China's share of the world's manufacturing exports. China's manufacturing exports increased significantly after its accession to the WTO, with a surge in the share of hard manufacturing products such as consumer electronics, home appliances, and computers (Amiti & Freund, 2007). Despite this significant growth, China still lags behind the United States, a manufacturing powerhouse.

Table 4 Main exporters of manufacturing products (1992-2020)

Unit: US\$ Billion

<b>Year/Country</b>	<b>World</b>	<b>United States</b>	<b>China</b>	<b>Germany</b>	<b>United Kingdom</b>	<b>Hong Kong, China</b>
1992	994.0	411.3	63.7	265.2	150.9	103.0
1993	1033.4	457.7	87.0	246.1	143.0	99.6
1994	1186.0	530.0	95.4	274.1	164.5	122.0
1995	1381.8	589.7	110.6	342.3	195.3	143.9
1996	1423.5	616.7	120.7	338.5	205.9	141.7
1997	1520.3	675.6	126.5	334.6	226.2	157.4
1998	1583.9	729.1	122.6	358.6	238.4	135.2
1999	1670.9	805.6	129.4	356.1	246.6	133.2
2000	2069.4	1099.1	179.3	358.5	256.3	176.2
2001	2008.3	1034.8	193.9	354.5	257.2	167.9
2002	2142.7	1085.5	240.8	361.4	265.8	189.2
2003	2425.3	1149.4	330.5	436.3	291.0	218.1
2004	2870.3	1321.8	423.7	519.4	340.2	265.2
2005	3079.5	1425.2	470.8	546.5	347.0	289.9
2006	3447.9	1556.5	559.1	621.8	376.6	334.0
2007	3844.8	1625.6	671.9	728.4	431.1	387.8
2008	3995.9	1639.4	731.8	797.2	437.0	390.4
2009	3304.3	1296.9	695.3	630.7	334.7	346.8
2010	3991.6	1553.2	921.1	695.2	363.3	458.7
2011	4567.8	1745.6	1062.5	819.7	408.6	531.5
2012	4657.5	1855.6	1051.4	759.5	402.6	588.4
2013	4847.9	1905.4	1106.0	776.4	417.9	642.1
2014	5098.4	2039.7	1155.4	821.2	449.2	632.9
2015	4888.3	2082.0	1043.6	743.4	433.8	585.6
2016	4814.7	2037.0	1047.4	759.9	422.7	547.7

2017	5248.4	2162.4	1233.7	835.8	446.2	570.4
2018	5724.0	2369.2	1355.1	925.5	461.1	613.1
2019	5566.9	2381.5	1289.3	898.7	443.4	553.9
2020	5564.5	2226.1	1333.7	867.3	612.0	525.4

Source: World Integrated Trade Solution, 2023

Previous research has demonstrated that Total Factor Productivity (TFP) has been the primary source of the increased competitiveness of China's manufacturing industry (Zhang & Zhang, 2005). And the growth in TFP contributes to two-thirds of labor productivity growth (Brandt, Van Biesebroeck, & Zhang, 2012). Motorola and Nokia are two cases of information technology businesses that have taken advantage of China's cheap labor costs by importing components into the country and assembling them locally to produce final products for export to other countries. This strategy has played a significant role in the development of China's manufacturing industry and has contributed to the country's ability to maintain a trade surplus after its accession to the WTO (First Financial Daily, 2021).

In recent years, the increasing labor costs in China's low-end manufacturing industry have resulted in many enterprises relocating to regions with lower costs, thus weakening the market dominance of labor-intensive industries in China (Deng, Bai, Shen, & Xia, 2022). However, despite this transformation, the global competitiveness of China's manufacturing industry has not been greatly affected due to the growth in labor productivity, which is at a faster rate than labor costs (Van Ark, 2008).

In recent years, China's digital economy has experienced remarkable growth. According to the United Nations Conference on Trade and Development's (UNCTAD) Digital Economy Report 2021, both the United States and China stand out in terms of their abilities to participate in and benefit from a data-driven digital economy. In the meantime, some studies have shown that the digital economy has a significant positive spatial correlation with manufacturing export competitiveness, enhancing the manufacturing export competitiveness of the region in which it is located, as well as having a beneficial impact on the manufacturing export competitiveness of neighboring regions (Yao, 2022). Therefore, the development of the digital economy in China has played a significant role in enhancing the technological sophistication of its manufacturing exports, particularly in technology-intensive industries (Du & Guan, 2021).

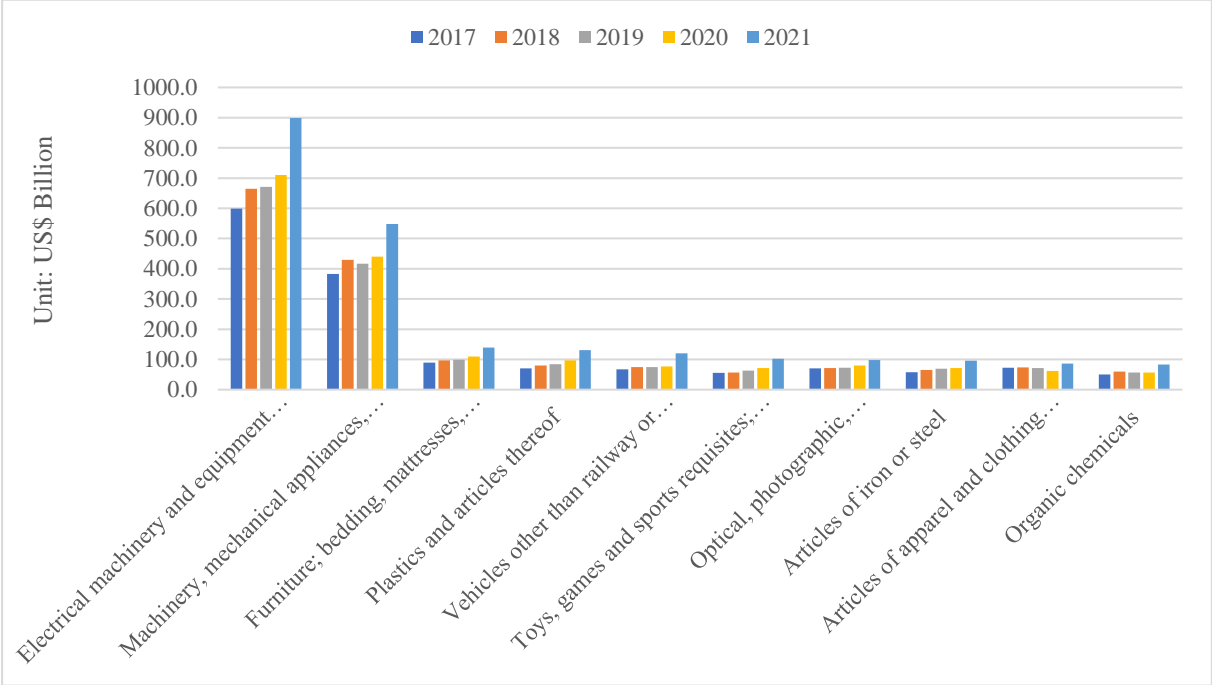
#### 2.2.2.1. Electronic equipment

Although China's manufacturing industry has achieved a relatively high degree of international competitiveness, the competitiveness of Chinese individual enterprises is still quite weak (Pei C. , 2004). China's high-tech industry continues to rely on the lower end of the global value chain, such as processing and assembly, and its overall competitiveness is lower than that of the United States (Zhao, Ding, & Guo, 2022). As a result, China has depended on FDI inflows to obtain foreign sophisticated technology (Kim & Mah, 2009). At the same time, there are also studies suggesting that FDI might affect the international competitiveness of China's

manufacturing industry and that an increase in the share of FDI can assist strengthen the international competitiveness of the industry in which it is located (Pei C. , 2004). To facilitate this, the country has implemented a number of policies aimed at introducing foreign technology, for instance, establishing Special Economic Zones and Economic and Technological Development Zones, as well as reducing the tax rate to 15% for FDI in technology-intensive and knowledge-intensive industries (WTO, 2001b).

Figure 6 presents the main products exported by China from 2017 to 2021. The figure illustrates a constant increase trend in the overall export value of all products, increasing from 2271.8 billion US dollars in 2017 to 3361.8 billion US dollars in 2021. It is worth mentioning that the most significant products exported from China are electronic machinery and equipment, as well as mechanical appliances, with an export value of 1446.6 billion US dollars in 2021, accounting for 43% of China's total exports in the same year. These items have demonstrated steady growth throughout the years and have remained as China's leading export products. Previous studies have suggested that foreign investment in high-end manufacturing would benefit China's high-end manufacturing industry by introducing cutting-edge technology from other countries (Ianchovichina & Walmsley, 2003). This hypothesis has been supported by evidence, as the introduction of foreign technology has led to a significant increase in China's exports in the manufacturing sector, particularly electronic machinery.

Figure 6 Main products exported by China (2017-2021)



Source: International Trade Centre, 2023

2.2.2.2. Textiles and clothing sector

Table 5 presents the export values of the world’s leading textiles and clothing products exporters. It is worth mentioning that China has consistently maintained its position as the

leading exporter in the global market for textiles and clothing products, both before and after its accession to the WTO.

Accession will boost China's labor-intensive manufacturing sectors, especially the textiles and clothing sector which will benefit directly from the removal of quotas on textiles and clothing exports to its main destinations, namely the United States, Japan, and Western Europe (Ianchovichina & Martin, 2003). Under the Agreement on Textiles and Clothing (ATC), WTO member countries are subject to gradually eliminating textiles and clothing import quotas over a ten-year period in three phases, which started in 1995 and ended on January 1, 2005 (WTO, 2023). By becoming a member of the WTO, China was able to take advantage of the gradual elimination of import quotas in the textile and clothing sector, as agreed under the ATC. As a result, we can observe in Table 5 that China's exports in this category have increased drastically since its accession to the WTO, well beyond other countries, with its export value of textiles and clothing products increasing from 24.62 billion US dollars in 1992 to 280.64 billion US dollars in 2020. This value tripled from 1992 to 2001 and further increased 5.6 times from the time of China's accession to the WTO until 2020, benefiting from the advantages as a WTO member.

Table 5 Main exporters of textiles and clothing products

Unit: US\$ Billion

<b>Year/Country</b>	<b>China</b>	<b>Germany</b>	<b>Vietnam</b>	<b>Italy</b>	<b>India</b>
<b>1992</b>	24.6	23.1	0.0	0.0	5.7
<b>1993</b>	26.1	19.0	0.0	0.0	5.7
<b>1994</b>	34.2	20.3	0.0	22.9	7.2
<b>1995</b>	35.9	23.0	0.0	26.3	8.1
<b>1996</b>	35.0	22.4	0.0	28.6	9.2
<b>1997</b>	43.2	21.6	0.0	27.1	9.4
<b>1998</b>	40.5	22.4	0.0	27.1	9.0
<b>1999</b>	41.3	20.7	0.0	25.1	10.0
<b>2000</b>	49.4	18.6	2.1	24.7	11.1
<b>2001</b>	49.8	19.2	2.2	25.6	10.6
<b>2002</b>	57.8	20.5	3.0	25.9	11.4
<b>2003</b>	73.3	23.1	3.9	29.5	12.5
<b>2004</b>	88.8	25.7	4.8	33.2	14.2
<b>2005</b>	107.7	27.0	5.3	33.0	17.0
<b>2006</b>	138.1	29.3	6.5	35.1	19.1
<b>2007</b>	166.1	32.5	8.6	39.1	21.0
<b>2008</b>	179.7	36.0	10.2	40.5	22.6
<b>2009</b>	161.3	31.0	10.4	30.8	21.9
<b>2010</b>	199.5	32.5	13.3	31.7	27.1

<b>2011</b>	240.5	37.8	16.8	36.4	33.4
<b>2012</b>	246.1	33.7	18.2	33.7	32.7
<b>2013</b>	274.0	34.8	21.5	35.4	40.2
<b>2014</b>	287.6	36.4	25.2	37.1	38.6
<b>2015</b>	273.5	31.2	27.3	31.7	37.2
<b>2016</b>	253.3	31.7	28.7	32.2	35.4
<b>2017</b>	257.4	35.6	31.8	34.0	37.2
<b>2018</b>	266.2	39.7	36.7	36.8	37.0
<b>2019</b>	260.3	39.0	39.4	36.4	35.5
<b>2020</b>	280.6	37.7	37.1	30.9	29.6

Source: World Integrated Trade Solution, 2023

In the meantime, Germany and Italy also hold a significant share of this market, although their export numbers have remained relatively stable over the years. In contrast, Vietnam and India have shown remarkable growth in their exports. Overall, these five countries continue to maintain their domination in the global market for textiles and clothing items, with China occupying the top spot, followed by Germany, Vietnam, Italy, and India.

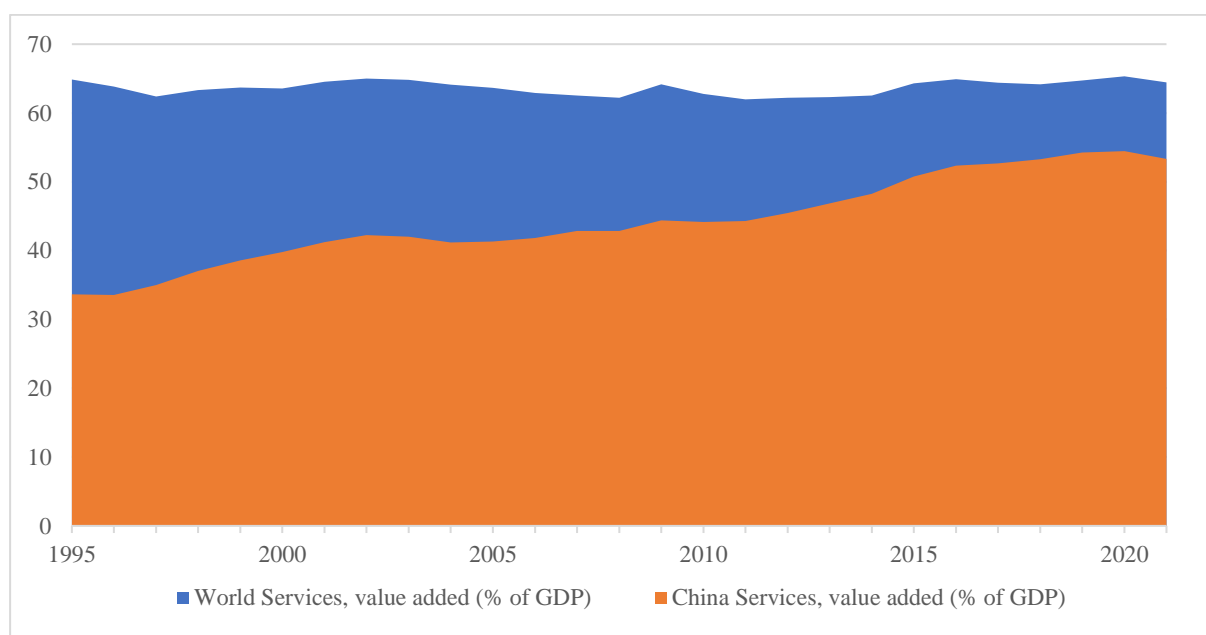
Overall, the accession has had a positive impact on China's textiles and clothing industry. The removal of quota restrictions under the ATC has resulted in significant benefits for the country's textiles and clothing industry, allowing for enhanced trade growth. At the same time, WTO membership provides China with a platform to negotiate for multilateral preferential treatment with other WTO member countries, as well as to use the WTO's dispute settlement mechanism to resolve any trade disputes that arise with other countries.

### **2.2.3. Service sector**

In comparison to the global average, China's economy has had a relatively low share of services over the past few decades. According to Figure 7, the global average for the service sector as a percentage of the economy is approximately 64% from 1995 to 2021, whereas China's average is only 44%. In main developed economies,<sup>18</sup> the share of services in GDP typically reaches 70% or higher (World Bank, 2023). This suggests that China's service sector is lagging behind in terms of overall development. However, China's service sector has experienced significant growth after its accession to the WTO, with its share of the economy increasing from 41% in 2001 to 53% in 2021, marking a noteworthy 12 percentage point rise over the past two decades. In contrast, the global average has remained constant, and the major developed countries have only seen minor rises of two to four percentage points (World Bank, 2023). Therefore, we came to the conclusion that China's accession to the WTO has played a significant role in boosting the development of its service sector, which has surpassed that of other major economies.

<sup>18</sup> Major developed economies refer to the United States, Japan, and European countries. The average levels for each country (1995-2021) are: 75% for the United States, 69% for Japan, 69% for France, and 69% for the United Kingdom. This data is calculated by the author based on data extracted from the World Bank.

Figure 7 The service sector as a percentage of GDP (1995-2021)



Source: World Bank, 2023

Table 6 presents an overview of China's total exports and imports in the service sector from 1990 to 2022, highlighting a persistent trade deficit in the sector. Since 2009, the value of the trade deficit has been gradually increasing. Despite China's trade balance in services having been essentially zero in 2001 since its accession to the WTO, the trade deficit hit a record high of 258.2 billion US dollars in 2018. According to the China Statistical Yearbook 2022, the transport, travel, fees for use of intellectual property, and insurance categories reported the highest import values in the services sector, standing at 133.55 billion US dollars, 111.04 billion US dollars, 46.89 billion US dollars, and 16.04 billion US dollars, respectively, in 2021 (National Bureau of Statistics of China, 2022). Therefore, the removal of restrictions on WTO accession, particularly after the end of the transition period, has resulted in a significantly increasing trade deficit in China's service sector due to rising imports.

Table 6 Total import and export of services (1990-2022)

Unit: US\$ 100 million

Year	Export & Import	Export	Import	Balance
1990	124.2	80.7	43.5	37.1
1991	136.7	95.5	41.2	54.3
1992	220.1	125.8	94.3	31.5
1993	266.2	145.8	120.4	25.5
1994	365	202	163	39
1995	496.4	244.2	252.2	-8
1996	505.7	279.8	225.9	54
1997	622.1	342.4	279.7	62.7
1998	518.9	250.5	268.4	-17.9
1999	610.2	293.7	316.5	-22.8
2000	711.9	350.3	361.6	-11.3



2001	784.5	391.8	392.7	-1
2002	927.6	462.3	465.3	-3
2003	1066.4	513.3	553.1	-39.8
2004	1452.3	725.1	727.2	-2.2
2005	1682.8	843.1	839.7	3.4
2006	2038.2	1029.8	1008.4	21.4
2007	2654.5	1353.2	1301.3	51.9
2008	3222.6	1633.1	1589.5	43.7
2009	3024.9	1435.7	1589.2	-153.5
2010	3717.4	1783.4	1934	-150.6
2011	4488.9	2010.5	2478.4	-468
2012	4828.8	2015.8	2813	-797.3
2013	5376.1	2070.1	3306.1	-1236
2014	6520.2	2191.4	4328.8	-2137.4
2015	6541.6	2186.2	4355.4	-2169.2
2016	6616.3	2095.3	4521	-2425.7
2017	6956.8	2280.9	4675.9	-2395
2018	7918.8	2668.4	5250.4	-2582
2019	7850	2836	5014	-2178
2020	6617.2	2806.3	3810.9	-1004.6
2021	8212.5	3942.5	4270	-327.5

Source: Data extracted from China Statistical Yearbook 2022

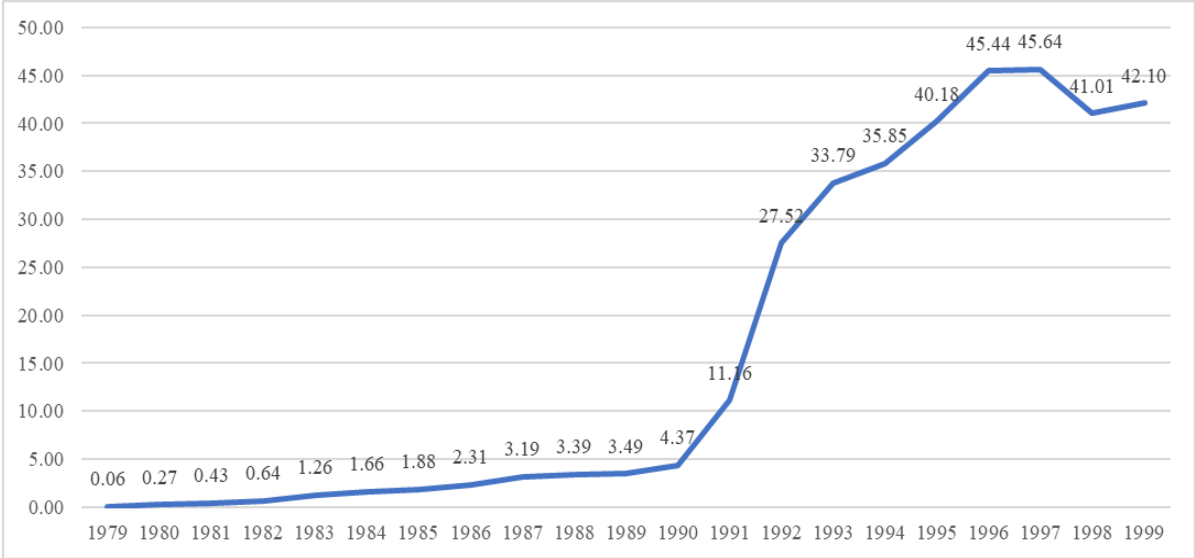
Meanwhile, China has been absorbing foreign investment in the service sector after its accession to the WTO. According to the Schedule of Specific Commitments on Services, China has committed to opening up several service sectors, including communication, construction and related engineering, distribution, education, environment, finance, tourism and travel, and transport, in a six-year transition period. During this period, foreign companies will be allowed to establish businesses in these sectors, with full liberalization set to take place in 2007. However, some industries, such as finance and telecommunications, continue to have restrictions with no more than 50% of foreign investment (WTO, 2001e). As a result, China's commitment to opening up its service sector is a critical component of its WTO accession package (Mattoo, 2003), and has facilitated the inflow of foreign investment into China's service sector.

#### 2.2.3.1. Foreign Direct Investment (FDI)

China's policy of reform and opening up policy in the 1980s resulted in an infusion of foreign capital inflows, which has continued to date. In the early years of this policy, external borrowing was the primary mode of capital inflows (OECD, 2000). Nonetheless, a significant shift occurred in 1992, when the Chinese government introduced a series of new policies and regulations aimed at promoting the inflow of FDI into the country. FDI replaced external borrowing as the primary source of foreign capital inflows, accounting for approximately 70% of the total capital inflows (OECD, 2000). The outcome of this initiative was remarkable, as the infusion of FDI into China experienced a notable acceleration, reaching a peak level of 45.46 billion US dollars in 1998, as shown in Figure 8. However, since the end of the 2000s, FDI inflows into China have been beset by a downturn and stagnation, which can be attributed mainly to the impact of the Asian financial crisis and the rise of acquisition transactions (OECD,

2000). Furthermore, existing restrictions on FDI, government corruption, and the inefficiency of state-owned enterprises have also contributed to this downturn (Chen, 2009).

Figure 8 China Foreign direct investment, net inflows (Bop, current US\$ billion)



Source: World Bank, 2023

However, China's accession to the WTO has accelerated the inflow of foreign investment in China. In response to the WTO's request for market liberalization, China pledged to open its domestic market and reduce barriers to foreign investment upon accession. In accordance with the principle of non-discrimination, including national treatment, China pledged to provide the same treatment to Chinese enterprises, including foreign-funded enterprises, as well as foreign enterprises and individuals in China.<sup>19</sup> Furthermore, China removed restrictions on current account transactions for foreign-invested enterprises (FIEs), in accordance with the International Monetary Fund (IMF) in its Staff Report on Article IV Consultations with China in 2000 (WTO, 2001b).<sup>20</sup>

As a result, during the three-year transition period, China pledged to progressively liberalize the scope and availability of trading rights for FIEs. For instance, eliminating the requirement of prior experience in importing and exporting for enterprises engaged in import and export activities, as well as abolishing its system of examination and approval of trade rights within three years after accession (WTO, 2001b).<sup>21</sup> Consequently, foreign enterprises acquired greater access to the Chinese market, leading to increasing foreign investment in China.

Additionally, foreign-invested enterprises operating in Special Economic Zones (SEZs) or the Economic and Technical Development Zones (ETDZ) in open coastal cities are subject to a corporate income tax rate of 15 percent (compared to the normal income tax of 33% percent).<sup>22</sup>

<sup>19</sup> (WTO Doc. WT/MIN(01)/3), paragraph 18.

<sup>20</sup> *Ibidem*, paragraph 28.

<sup>21</sup> *Ibidem*, paragraphs 83 and 84.

<sup>22</sup> *Ibidem*, paragraph 220.

This preferential treatment of income tax applies only to technology-intensive or knowledge-intensive items or projects with foreign investment exceeding 30 million US dollars, as well as enterprises operating in the field of energy, transportation, and port construction (WTO, 2001b). This reflects China's strong interest in attracting infrastructural foreign enterprises as well as foreign enterprises that can bring advanced technology and knowledge-intensive industries to the country, in order to boost domestic economic growth and development, especially in SEZs and ETDZs.

As shown in Table 7, with China's accession to the WTO and the subsequent reduction of restrictions on FDI, China experienced a notable increase in FDI inflows, particularly from 2001 to 2008. However, in 2009, China experienced a 14 percent decrease in FDI inflows compared to the previous year, which was primarily attributed to the impact of the global financial crisis on foreign economies and enterprises, as well as on international investment.

Table 7 Inward FDI China (2000-2021)

<b>Year</b>	<b>Inward FDI (US\$ billion)</b>	<b>Annual growth rate</b>
2000	40.71	-
2001	46.88	15%
2002	52.74	13%
2003	53.50	1%
2004	60.63	13%
2005	72.41	19%
2006	72.72	0%
2007	83.52	15%
2008	108.31	30%
2009	94.07	-13%
2010	114.73	22%
2011	123.99	8%
2012	121.07	-2%
2013	123.91	2%
2014	128.50	4%
2015	135.58	6%
2016	133.71	-1%
2017	136.32	2%
2018	138.31	1%
2019	141.23	2%
2020	149.34	6%
2021	180.96	21%

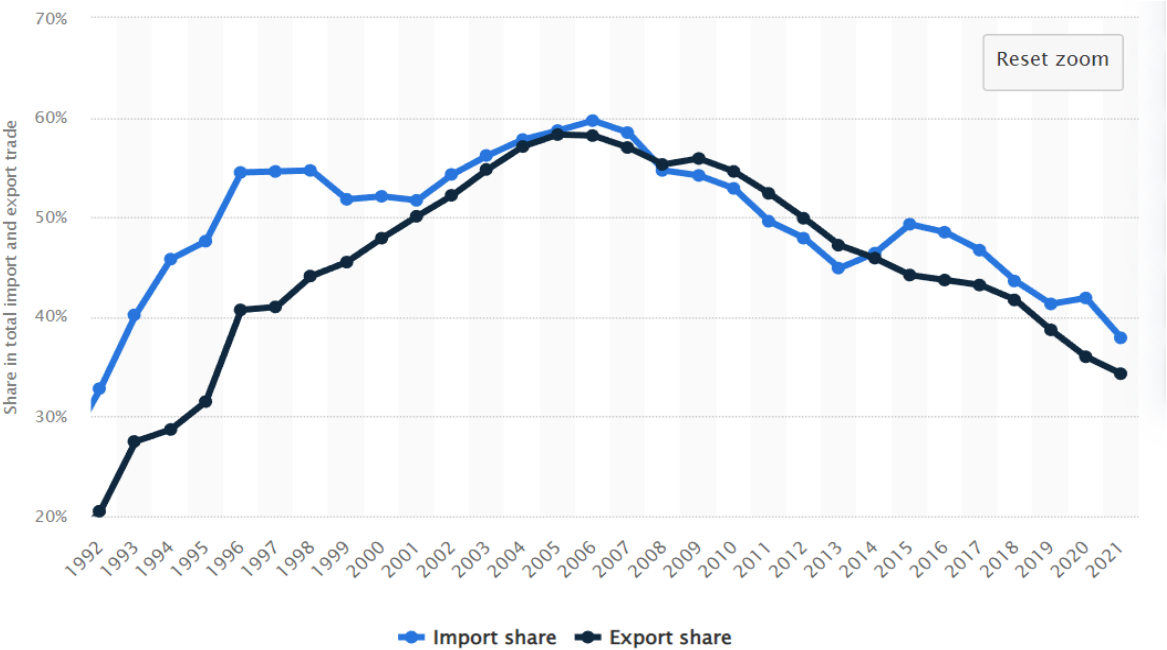
Source: UNCTAD, 2023

In 2010, FDI inflows into China rebounded with an annual increase of 22 percent, reaching reach a record high of 114.73 billion US dollars, mainly due to the economic recovery of foreign

economies, the continuous improvement of China's investment environment, which attracted more foreign investment (The State Council Information Office of China, 2010), and the increase in FDI in the services sector (UNCTAD, 2015). According to statistics, the total FDI inflows into China reached 129 billion US dollars in 2014, making it the largest beneficiary of FDI in the world (UNCTAD, 2015). This trend demonstrates that China's liberalization of FDI policies and the improvement of its investment environment have effectively attracted foreign investors, and that China's economic growth is significantly influenced by global economic conditions.

The data presented in Figure 9 demonstrates that foreign invested enterprises (FIEs) are significant exporters in China. Notably, in 2005, FIEs accounted for 58.3% of China's total processed exports. This remarkable share of exports by FIEs is a direct result of the significant increase in FDI between 1992 and 2005. The continuous expansion of FDI has facilitated China's export growth, resulting in a substantial increase in FDI exports as a share of China's total exports (Chen, 2009; Boden, 2012).

Figure 9 Share of FIEs in total import and export merchandise trade value in China (1986-2021)



Source: Statista, 2023

However, after 2005, the percentage of FDI exports in China's total exports began to decline, reaching 34.3% in 2021. This trend can be attributed to the steady progress made by Chinese domestic firms in enhancing their production and export capabilities, particularly the shift from labor-intensive to technology-based exports after the inflow of technology-based foreign firms. This shift reflects the growth of Chinese capital, enabled by FDI inflows, leading to increased investment in higher technology industries (Boden, 2012).

In summary, the accession of China to WTO in 2001 has had a significant influence on FDI inflows, resulting in a notable increase in such inflows. Recently, in December 2021, the Ministry of Commerce in China has highlighted the country's accomplishments in attracting foreign investment over the last two decades since joining the WTO. These achievements encompass sustained growth in the magnitude of FDI attraction, the attraction of investments in high-tech industries, and substantial liberalization of market access, among others (Ministry of Commerce, China, 2021).

#### 2.2.3.2. Financial sector

The development of China's financial industry can be characterized by four main stages. The first stage, spanning from 1949 to 1978, saw the implementation of a "grand unified" financial system during the planned economy era. During this period, the People's Bank of China operated both as the central bank and the sole commercial bank. During the second stage, spanning from 1978 to 1993, China's financial system began to diversify under the policy of reform and opening up. The four major state-owned banks<sup>23</sup> emerged and began to exercise their commercial functions, while the People's Bank of China focused only on central banking functions. During the third stage, which lasted from 1993 to 2004, there has been further financial system reforms as the four state-owned banks were transformed into commercial banks, and joint-stock commercial banks were established. Finally, from 2004 to the present, the financial system reform has been deepened. Banks have undergone shareholding reform, foreign financial institutions have opened representative offices in China, and private banks have been established (Zhao X. , 2021; He & Wei, 2022).

The General Agreement on Trade in Services (GATS) contains provisions related to financial services. As a member of the WTO, China is obligated to open its financial services trade market in compliance with its commitments (Lai, Qian, & Wang, 2016), including the opening of its RMB operations to foreign banks for domestic citizens by December 11, 2006. In addition, China has lifted geographical restrictions and other non-prudential restrictions on business conduct and has applied national treatment to foreign banks. As a result, foreign banks have entered the Chinese market, and both Chinese and foreign banks are now competing on the same stage (Zheng, 2007; WTO, 2001b).

During the early stages of China's accession to the WTO, the country's financial industry encountered significant challenges due to changing internal and external environments. Researchers expressed concerns that the domestic financial industry would be severely challenged (Qiu, 2006; Mou, 2000), as financial institutions from developed countries would directly enter the Chinese market and receive the same treatment as domestic institutions. However, subsequent studies have shown that foreign banks can also have a positive impact on

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<sup>23</sup> The four major state-owned banks are: the Bank of China, the China Construction Bank, the Industrial and Commercial Bank of China, and the Agricultural Bank of China.

China's financial industry, with the opening up for foreign bank entry leading to faster growth in industries that rely heavily on foreign capital (Lai, Qian, & Wang, 2016).

Table 8 presents the share of GDP contributed by the financial and insurance sector in China and several major developed countries. According to the data, the value added by China's financial and insurance sector has experienced rapid growth as a percentage of GDP since 2005, reaching levels that are progressively approaching those of developed countries (Zhang J. , 2021).

China's financial sector can be divided into two main stages of development. The first phase spanned from 1995 to 2005, during which time the share of China's financial and insurance sector in GDP steadily decreased from 5.24% to 4%, representing a 1.24 percentage point decline over a decade. The second phase, from 2005 to 2019, saw the share of China's financial and insurance sector in GDP increasing from 4% to 7.78%, resulting in a total gain of 3.78 percentage points over 14 years. This rate of increase nearly doubled the share of finance in China's GDP. Furthermore, China's financial and insurance sector reached its peak share of GDP in 2015, surpassing the United States with a share of 8.17% versus the US's 8.18%. Furthermore, China's financial and insurance sector share of GDP surpassed that of other developed countries such as United Kingdom, Germany, and Japan. Since 2015, the share of China's financial and insurance sector in GDP has shown a declining trend, which can be attributed in part to the volatility of global financial markets due to several factors, including the expected interest rate hike by the Federal Reserve, the continued divergence of monetary policies in major economies, and the intensification of geopolitical risks (The People's Bank of China, 2016).

Table 8 Finance and insurance sector value added as a percentage of GDP (1995-2022)

<b>Year/Country</b>	<b>China</b>	<b>Germany</b>	<b>Japan</b>	<b>United Kingdom</b>	<b>United States</b>
1995	5.24	4.58	5.12	7.52	...
1996	5.15	4.75	5.31	7.23	...
1997	5.24	4.81	5.26	7.12	6.86
1998	5.07	4.56	5.05	6.98	7.18
1999	4.96	5.38	5.01	6.81	7.14
2000	4.83	4.48	5	6.61	7.41
2001	4.69	4.49	5.52	6.47	7.71
2002	4.56	4.77	5.98	6.55	7.56
2003	4.4	5.25	6.18	6.77	7.52
2004	4.08	5.69	6.05	7.35	7.31
2005	4	5.52	6.05	8.01	7.67
2006	4.54	5.26	5.86	8.56	7.76
2007	5.63	4.76	5.81	8.92	7.33
2008	5.75	4.3	4.95	8.28	6.09
2009	6.27	5.11	5.01	9.6	6.87
2010	6.24	5	4.85	9.24	6.79
2011	6.3	4.8	4.71	9.17	6.73

2012	6.55	4.8	4.51	8.85	7.35
2013	6.96	4.62	4.6	8.8	6.99
2014	7.28	4.46	4.43	8.7	7.48
2015	8.17	4.4	4.3	8.08	7.68
2016	8.03	4.18	4.1	8.5	7.97
2017	7.79	4.02	4.06	8.78	7.9
2018	7.68	3.91	4.11	8.47	8.01
2019	7.78	3.89	4.07	8.18	8.17
2020	...	4	4.22	8.8	8.58
2021	...	3.78	4.28	8.86	8.55
2022	...	3.57	...	8.15	...

Source: (OECD, 2023)

Additionally, according to a previous study, the total factor productivity level of China's financial sector increased significantly between 1998 and 2012, with an average annual growth rate of 5.7%. The trend was found to be closely aligned with technological progress, which played a more substantial role in driving growth than technical efficiency (Wu, 2014).

In general, China has diversified its financial businesses under the environment of financial globalization. Following China's accession to the WTO, the country's financial industry has been further opened up to foreign financial institutions, which have invested heavily in the sector. Since 2005, China's financial sector has grown rapidly, with its share of GDP increasing over time. As a result, the expansion of the financial sector can promote an increase in both regional GDP and regional fiscal revenue.

### 2.3. Summary

This chapter has shown that China's accession to the WTO has had positive effects on political and economic sides. In terms of international relations, China's economic strength has elevated its position in the world as a geoeconomic power. From the perspective of the economy, due to the WTO's market access rules, China has experienced a significant increase in its import and export trade flow, as well as its GDP. In the manufacturing sector, China has benefited from its advantage of low labor costs, resulting in an increase in its exports of manufacturing goods. In the service sector, China has been successful in attracting foreign direct investments, resulting in the development of high-tech industries within the country.

## CHAPTER 3: NEGATIVE IMPACTS OF CHINA'S ACCESSION TO THE WTO

The aim of this chapter is to provide a comprehensive view of the main negative impacts of China's accession to the WTO. Therefore, the chapter is divided into four sections. The first section focuses on its political impact and examines the potential economic risks in the context of globalization and geoeconomics, with a particular emphasis on the increase in TPU in recent years. The second section analyzes the economic impact of China's accession, digging into

different industries that have been affected by WTO accession, in particular, the agricultural industry and the automotive industry. The last section discusses the social impact that has been brought to the country, including income equality, the regional labor market, and the phenomena of employment migration from rural areas to urban areas, as well as the growing issue of educational attainment in China. The last section provides an overview of the negative impacts that China's accession has brought to the country.

### 3.1. Political impact: increase in TPU and geoeconomics

As shown in Table 9 below, China's trade flows of goods and services have been increasing since its accession to the WTO, among which the trade in goods is the dominant one. At the same time, China's GDP has experienced rapid growth, but the share of trade flow to GDP has gradually increased since WTO accession, reaching a peak of 71% in 2006 and subsequently declining to 39% in 2021. The decline in China's trade to GDP ratio can be attributed to the 2015 financial crisis and the COVID-19 pandemic. After the reopening of China's borders in early January 2023, it is expected to boost the economy and its trade flow will continue to increase.

Table 9 International trade values and share of GDP

Year	Total GDP (US\$ billion)	Service trade, total import and export value (US\$ billion)	Merchandise trade, total import and export value (US\$ billion)	Total international trade (US\$ billion)	Total international trade (%GDP)
1990	<u>360.9</u>	12.4	115.4	<u>127.9</u>	35%
1991	<u>383.4</u>	13.7	135.6	<u>149.3</u>	39%
1992	<u>426.9</u>	22.0	165.5	<u>187.6</u>	44%
1993	<u>444.7</u>	26.6	195.7	<u>222.4</u>	50%
1994	<u>564.3</u>	36.5	236.6	<u>273.2</u>	48%
1995	<u>734.5</u>	49.6	280.9	<u>330.6</u>	45%
1996	<u>863.7</u>	50.6	289.9	<u>340.5</u>	39%
1997	<u>961.6</u>	62.2	325.2	<u>387.4</u>	40%
1998	<u>1029.0</u>	51.9	324.0	<u>375.9</u>	37%
1999	<u>1094.0</u>	61.0	360.6	<u>421.7</u>	39%
2000	<u>1211.3</u>	71.2	474.3	<u>545.5</u>	45%
2001	<u>1339.4</u>	78.5	509.7	<u>588.2</u>	44%
2002	<u>1470.6</u>	92.8	620.8	<u>713.6</u>	49%
2003	<u>1660.3</u>	106.6	851.0	<u>957.7</u>	58%
2004	<u>1955.3</u>	145.2	1154.6	<u>1299.9</u>	66%
2005	<u>2286.0</u>	168.3	1421.9	<u>1590.3</u>	70%
2006	<u>2752.1</u>	203.8	1760.4	<u>1964.3</u>	71%
2007	<u>3550.3</u>	265.5	2176.2	<u>2441.7</u>	69%
2008	<u>4594.3</u>	322.3	2563.3	<u>2885.6</u>	63%
2009	<u>5101.7</u>	302.5	2207.5	<u>2510.1</u>	49%
2010	<u>6087.2</u>	371.7	2974.0	<u>3345.8</u>	55%



2011	<u>7551.5</u>	448.9	3641.9	<u>4090.8</u>	54%
2012	<u>8532.2</u>	482.9	3867.1	<u>4350.1</u>	51%
2013	<u>9570.4</u>	537.6	4159.0	<u>4696.7</u>	49%
2014	<u>10475.7</u>	652.0	4301.5	<u>4953.6</u>	47%
2015	<u>11061.6</u>	654.2	3953.0	<u>4607.2</u>	42%
2016	<u>11233.3</u>	661.6	3685.6	<u>4347.2</u>	39%
2017	<u>12310.4</u>	695.7	4107.1	<u>4802.9</u>	39%
2018	<u>13894.8</u>	791.9	4622.4	<u>5414.4</u>	39%
2019	<u>14279.9</u>	785.0	4577.9	<u>5362.9</u>	38%
2020	<u>14687.7</u>	661.7	4655.9	<u>5317.7</u>	36%
2021	<u>17734.1</u>	821.3	6050.2	<u>6871.5</u>	39%

Source: the data is calculated by the author based on the data extracted from the China Statistical Yearbook 2022 and Work Bank database.

However, there are concerns among academics and experts that China's high trade share of GDP and foreign trade dependence could make it more vulnerable during the period of increased TPU (Dural, 2007). In recent years, a series of events such as Brexit in the UK, the US withdrawal from the Trans-Pacific Partnership (TPP), and trade frictions between the US and China have led to an increase in TPU (Wang & Wu, 2023). In 2018, the US, China's largest trading partner,<sup>24</sup> imposed tariffs on three separate "lists" of goods imported from China. In response, China also took retaliatory measures. This incident has further increased trade tensions between the two countries and has had a direct negative impact on China's international trade and economy. In particular, manufacturers on the export side and consumers on the import side have become the direct victims of this conflict. Despite this, from a macroeconomic perspective, the impact of the increase in tariffs between the US and China is expected to be limited on the bilateral trade balance (Cerutti, Gopinath, & Mohommad, 2019). On the other hand, according to previous studies, the increase in TPU is expected to have a negative impact on China's GDP, particularly on export-oriented sectors like the textile and clothing industry, machinery industry, and other manufacturing sector (Wang & Wu, 2023).

In conclusion, in the context of globalization and geoeconomics, the rise in TPU and excessive dependence on foreign trade can pose significant challenges to China's economy. Therefore, it is recommended that China undertake measures, proactively adapts its industrial structure and enhances domestic economic development, in order to reduce the impact of TPU.

### 3.2. Economic impact

The purpose of this section is to examine the economic impacts that China's accession to the WTO has brought to the country. To this end, the section provides a comprehensive analysis of the different industries that have been affected at various levels. Specifically, the agriculture and automobile industries are the focus of this study. It is worth mentioning that although the telecommunications industry was initially expected to be impacted by foreign enterprises after

<sup>24</sup> See Appendix III and Appendix IV.

WTO accession, the current state of China's telecommunications industry is still dominated by three state-owned enterprises<sup>25</sup> (Han & Wang, 2014). Therefore, this paper will not delve into the details of this industry.

### ***3.2.1. Agricultural sector***

As previously mentioned, agricultural policies were one of the priorities during China's pre-accession negotiations with the WTO. Before joining the WTO, China imposed tariffs on soybean imports, resulting in higher prices for imported soybeans compared to domestically produced ones, and diminishing their competitive advantage (Huang, Rozelle, & Chang, 2003). Meanwhile, the country heavily subsidized corn and cotton exports, with corn subsidies averaging 34 percent of the export price, and cotton subsidies exceeding 10 percent in some cases (Huang, Rozelle, & Chang, 2003). Following its accession, according to the Schedule of Concessions and Commitments on Goods annexed to the Draft Protocol as Annex 8, China committed to reducing its tariffs on agricultural products from 19.9% to approximately 15.5%. These tariff reduction commitments for agricultural products were to be implemented by the end of 2004 (WTO, 2001d). While the majority of the tariff reduction occurs during the first two years following China's WTO accession, particularly in the case of highly protected products, such as oil seeds, sugar, vegetable oils, and fats (Shafaeddin, 2002). Additionally, by the date of accession, China would not maintain or introduce any export subsidies on agricultural products (WTO, 2001b).<sup>26</sup> As demonstrated in Table 2, a significant proportion of the list of non-tariff measures that China is committed to eliminating are related to agricultural products.

Consequently, certain policy adjustments after the accession have had an adverse effect on agriculture. For instance, the reduction of tariffs on soybeans has led to an increase in foreign soybean imports, thereby diminishing the competitive edge of domestically produced soybeans. Similarly, the elimination of export subsidies on corn and cotton has resulted in a rise in export costs for these commodities. Agricultural products will be one of the industries that are most severely affected by tariff reduction after the accession and the most adversely affected by subsidy reduction (Shafaeddin, 2002).

As shown in Figure 10, China's agricultural share of GDP reached its peak in the 1980s and has since been on a declining trend. Upon China's accession to the WTO in 2001, the GDP share of the agriculture, forestry, animal husbandry, and fishery sectors was 14.2%, and has dropped to 7.6% in 2021, experiencing a total decline of 6.6 percentage points in the past two decades. The decline in the share of agriculture in GDP can be attributed to several factors. Firstly, the reduction of agricultural import tariffs after WTO accession has led to an increase in imports of agricultural products from other countries, bringing competitive pressure on the domestic

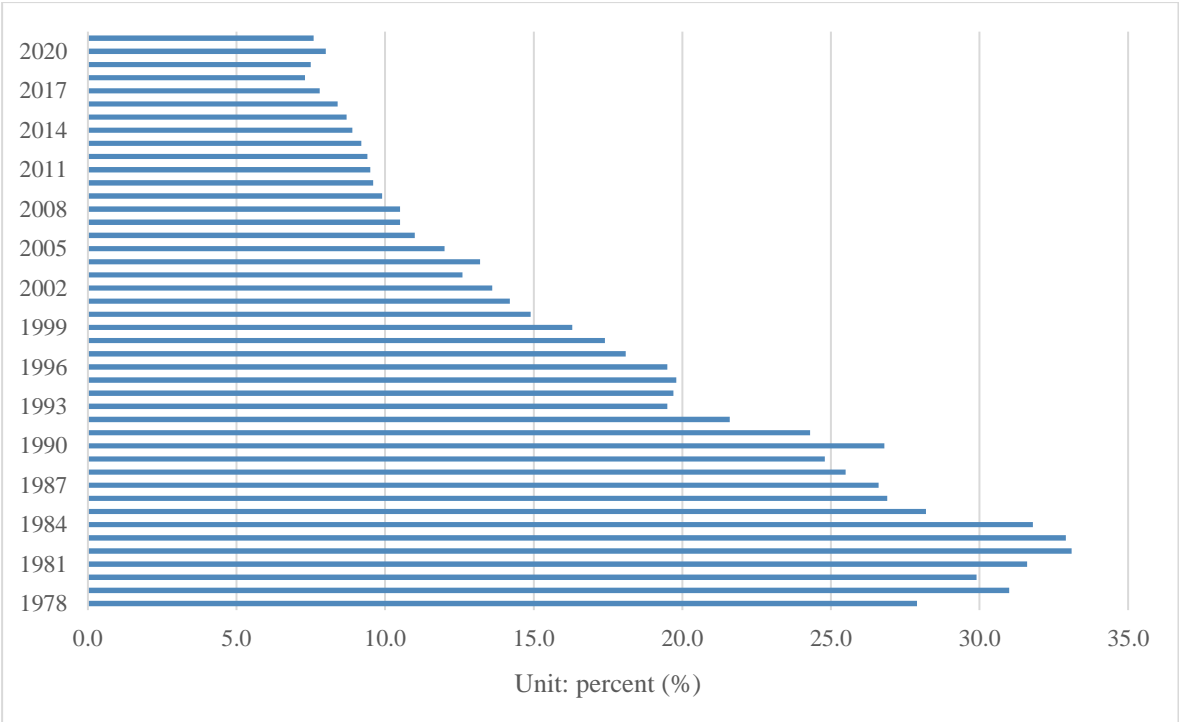
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<sup>25</sup> The current big three in China's telecommunications industry are: China Mobile, China Telecom, and China Unicom.

<sup>26</sup> (WTO Doc. WT/MIN(01)/3), paragraph 234.

agricultural industry. Secondly, the elimination of relevant agricultural subsidies after WTO accession has also impacted on the domestic agriculture industry. Lastly, the rapid expansion of labor-intensive industries, particularly after WTO accession, has generated a surge in labor demand, resulting in the transformation of agricultural workers into manufacturing workers and a consequential migration of rural populations to urban centers. Given the consistent decline in the share of China's agriculture in GDP in recent decades, we do not exclude the possibility that it will continue to fall in the next coming years.

Figure 10 The Agriculture, Forestry, Animal Husbandry and Fishery sector as a percentage of GDP (1978-2021)



Source: China Statistical Yearbook 2022

In contrast to developed countries like the United States, France, and Japan, where agriculture is dominated by industrialized operations and mechanized production, agricultural production in China primarily relies on the household responsibility system, with most farms being small and dispersed. As a result, increasing agricultural production and income has long been a significant concern for the Chinese government (Shen, Wang, Boussemart, & Hao, 2022). According to the monthly statistical report on China's agricultural imports and exports published by the Department of Foreign Trade of the Chinese Ministry of Commerce, China has been running a trade deficit in agricultural products for nearly two decades and is currently one of the world's main agricultural product consumers, with the United States being China's main importer of agricultural products (Department of Foreign Trade of the Chinese Ministry of Commerce, 2002-2020). However, the US withdrawal from TPP in January 2017, the imposition of higher US tariffs on steel and aluminum imports in March 2018, and the

escalation of trade tensions between the US and China have led to increased uncertainty in US trade policy (TPU) (Bloom, Davis, & Baker, 2019).

In response to the trade protectionist measures of the United States, China has unavoidably reduced its imports of US agricultural products. Instead, China has shifted its agricultural imports from North America to South America, Europe, and Asia, resulting in an overall increase in Chinese agricultural imports. A study found that the rise in US TPU would not threaten China's food security but will lead to higher import prices for some important products (Yu, Fan, Wang, & Wang, 2023).

### ***3.2.2. Industrial sector: automotive***

#### **The background of China's automotive industry before the WTO accession**

Before China's accession to the WTO, the Chinese automotive industry was dominated by a few large state-owned enterprises, including First Automotive Works (FAW), Shanghai Automotive Industry Corporation (SAIC), and Dong Feng Auto Corporation (DFAC). These three automotive manufacturers accounted for a combined market share of 44.3% in 1998, which was nearly half of the total market. However, despite their dominance in the Chinese market, the annual production of domestic automotive manufacturers was much lower than that of leading foreign manufacturers (Liu & Woo, 2001).

In the 1980s, China started to open its domestic market to foreign automotive manufacturers by allowing them to establish joint ventures with domestic Chinese automotive manufacturers. The idea behind this strategy was to enable domestic manufacturers to learn from leading foreign enterprises in the industry and gain experience and technology, with the eventual goal of becoming internationally competitive (Chu, 2011).

As a result, the number of foreign state-owned joint ventures in China's automotive industry has increased, resulting in significant growth in market share for foreign enterprises (Liu & Woo, 2001). For instance, the leading domestic automotive manufacturer SAIC, has achieved significant profits through its joint ventures with foreign partners like Volkswagen and General Motors (GM). However, it is worth noting that SAIC's joint ventures rely heavily on the design and technology expertise of its foreign partners, and there has been reluctance on the part of these partners to transfer their design skills to the joint venture structure (Thun, 2018).

#### **China's commitments concerning the automotive industry**

The autos tariffs in China's automotive industry were significantly high before the accession, with rates reaching as high as between 110% and 150% in the 1990s (Liu & Woo, 2001). As part of its commitment to join the WTO, China made a pledge to reduce its auto tariffs after bilateral negotiations. According to the report of the working party on the accession of China, China committed to gradually reduce auto tariffs to 25% by July 1, 2006, as shown in Table

10,<sup>27</sup> and tariffs on auto parts will not exceed 10%.<sup>28</sup> Additionally, China pledged to increase the proportional investment limit for automotive manufacturers from 30 million US dollars before accession to 150 million US dollars four years after accession.<sup>29</sup>

Table 10 China's tariff concessions on cars

Engine displacement	2000	2001	2002	2003	2004	2005	2006	July 1, 2006
Above 3L	63.5%	51.9%	43.8%	38.2%	34.2%	30%	28%	25%
Below 3L	77.5%	61.7%	50.7%	43%	37.6%	30%	28%	25%

Source: The State Council of China, 2001

Due to the fact that domestic automotive manufacturers were not as productive as foreign automotive manufacturers in the 1990s, it was commonly believed that the potential increase in the number of imported vehicles from foreign countries would put competitive pressure on domestic manufacturers, and the future of China's automotive industry after WTO accession did not seem optimistic (Liu & Woo, 2001). The reduction of auto tariffs was expected to bring significant challenges to the domestic automotive manufacturing industry.

**China’s automotive industry after the WTO accession**

Since China's accession to the WTO, the majority of the leading auto brands in terms of sales are joint ventures and foreign investment companies, with a smaller representation of domestic brands. Within the domestic market, domestic automotive manufacturers dominate the low-end market, while foreign investment companies dominate the high-end market (Thun, 2018).

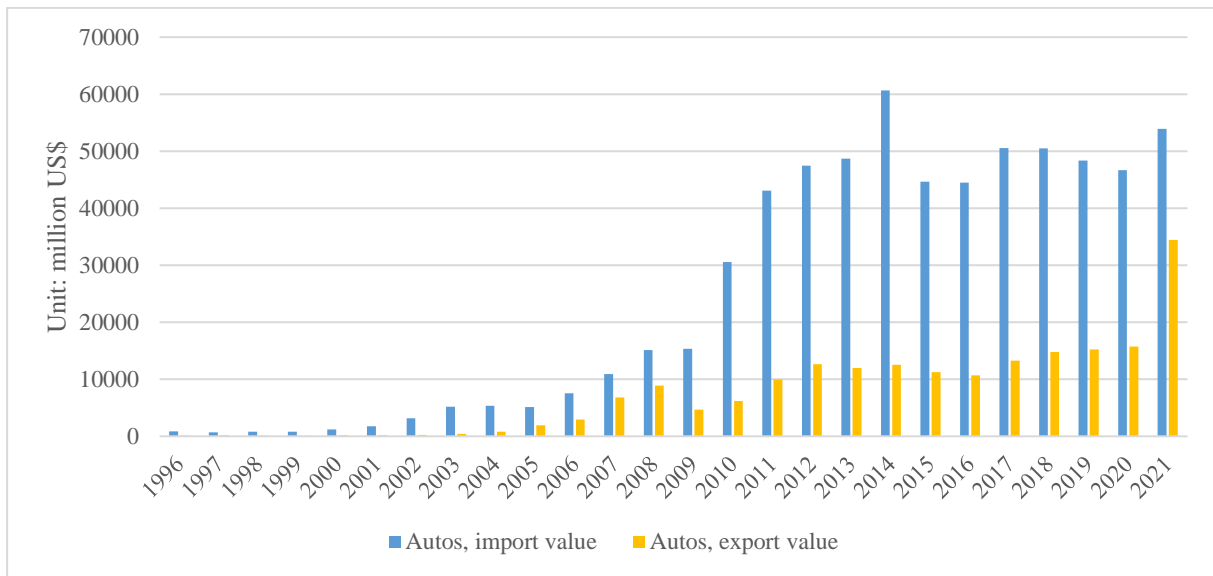
The following Figure 11 demonstrates the changes in China's auto imports and exports before and after WTO accession. As shown in the figure, there has been a substantial increase in both imports and exports of autos after China's accession to the WTO. The total value of China's vehicle imports increased from 1748.1 million US dollars in 2001 to 53,908.83 million US dollars in 2021. Additionally, the total value of China's vehicle exports has surged from 208.22 million US dollars in 2001 to 34,437.34 million US dollars in 2021. It is also worth mentioning that China's auto exports have surged significantly in 2021, with the export value increasing by 119% compared to the previous year, narrowing the gap with the import value. According to the China Association of Automobile Manufacturers, SAIC, Chery, and the fully foreign-owned company Tesla are among the major exporters.

<sup>27</sup> Appendix VI displays China’s tariff concessions on other types of autos. See page 390 of the Schedule of Concessions and Commitments on Goods, 1 October 2001, WTO Doc. WT/ACC/CHN/49/Add.1.

<sup>28</sup> (WTO Doc. WT/MIN(01)/3), paragraph 93.

<sup>29</sup> *Ibidem*, paragraph 207.

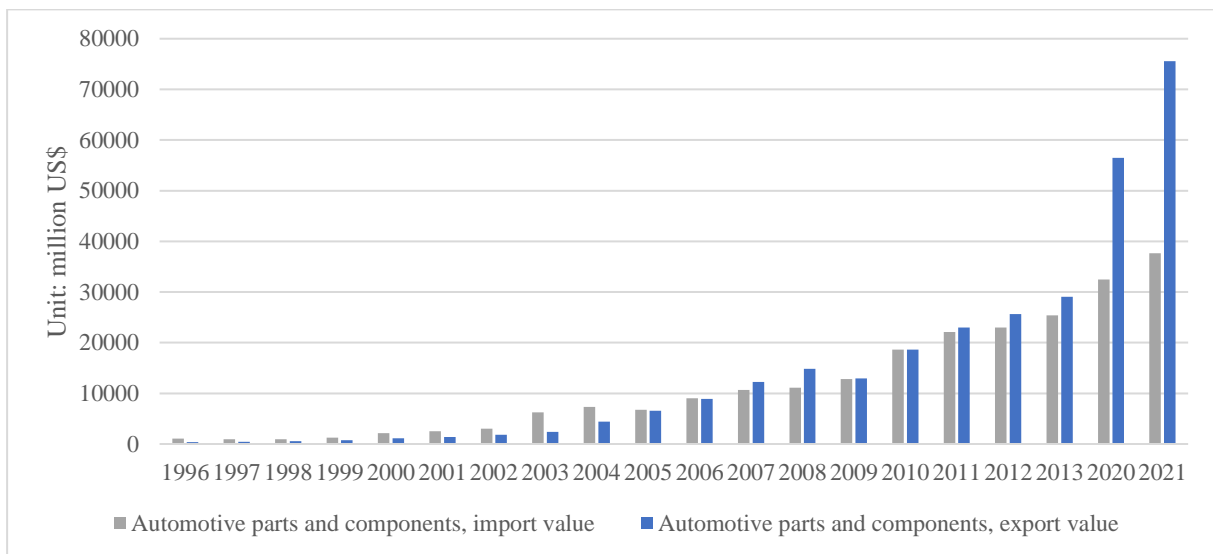
Figure 11 Export and import values of autos in China (1996-2021)



Source: National Bureau of Statistics of China, 2023

The following Figure 12 illustrates the trends in the total value of China's imports and exports of auto parts and components before and after the country's accession to the WTO. In contrast to the import and export values of autos, China's import value of auto parts and components was generally higher than its export value during the pre- and early stages of its WTO accession. However, the development of China's auto parts and components manufacturing industry has been on the rise, and the total export value of auto parts and components exceeded the total import value for the first time in 2007. In recent years, the total export value of China's auto parts and components has been growing rapidly, far exceeding the value of imports and consistently maintaining a trade surplus.

Figure 12 Export and import values of automotive parts and components in China (1996-2021)



Source: National Bureau of Statistics of China, 2023

In 2021, the total import value of China's auto parts and components was recorded at 37,639.5 million US dollars, while the total export value was 75,546.1 million US dollars, representing an increase of 34% from the previous year and almost double the value of imports. The figure indicates that China's auto parts and components manufacturing industry has been developing rapidly after its WTO accession, with a far more positive impact than the automotive manufacturing industry.

This phenomenon can be primarily attributed to the dominant presence of several large global players in the automotive industry market, mainly concentrated within a few countries (Kierzkowski, 2011). However, since the late 1980s, economic globalization has been a significant driver behind the relocation of parts and components factories and production facilities of large automotive manufacturers to developing countries, with the primary objective of either reducing production costs or accessing newer markets (Wang, Lee, Kim, & Park, 2015; Kierzkowski, 2011).

China, with its low labor costs and lower tariffs following its accession to the WTO, has become the preferred country of destination for those global automotive manufacturers in seeking parts manufacturers. As a result, China has gradually become a vital player in the global auto parts and components manufacturing industry (Wang, Lee, Kim, & Park, 2015).

In general, China's accession to the WTO has facilitated its increased participation in global trade activities within the automotive manufacturing industry. Due to the lack of technological competitiveness, China has emerged as a major importer of mid- to high-end autos from high-income countries and a key exporter of low-end autos to low-income countries (Wang, Lee, Kim, & Park, 2015). In addition, since its WTO accession, there has been a notable shift in China's automotive market, transitioning from a position of dominance by state-owned enterprises to a market dominated by foreign enterprises. Conversely, China's auto parts and components industry has experienced significant growth, leveraging its cost advantage in low labor costs, the country has become one of the world's most prominent manufacturers of auto parts and components, with a substantial increase in export values in recent years.

### **3.3. Social impact**

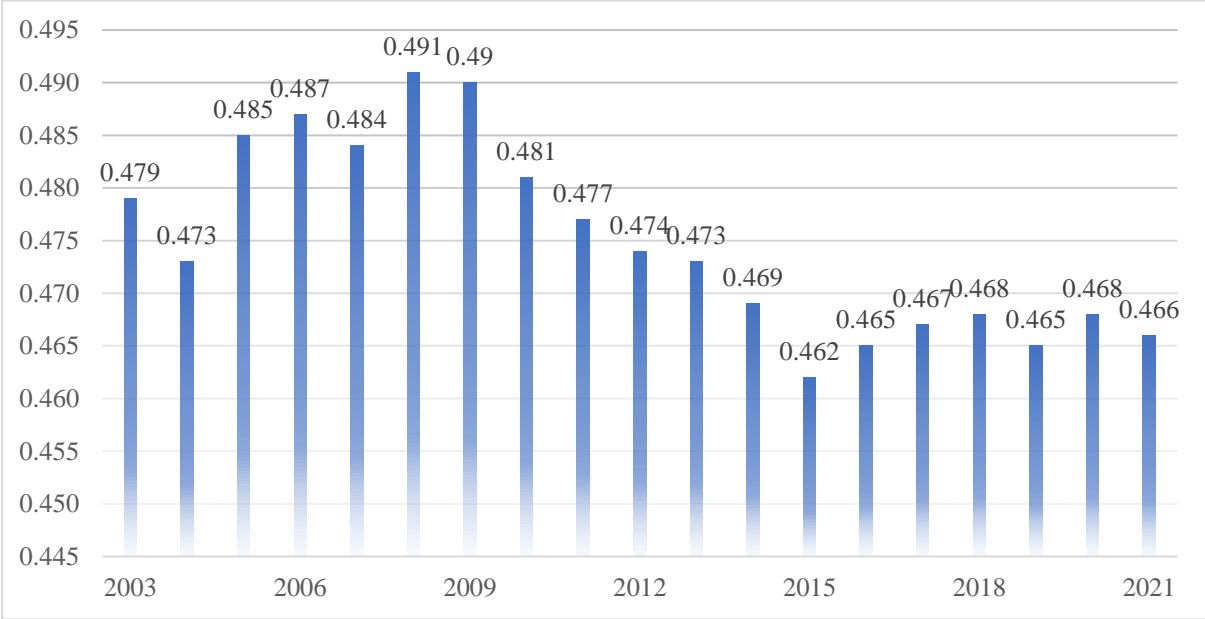
This section focuses on the main social impacts that China's accession to the WTO has brought to the country, which includes three parts. The first part discusses the issue of income inequality that China has been facing after WTO accession, mainly between rural areas and urban areas, as well as the distribution between Western regions and South-Eastern regions. The second part analyzes the Chinese regional labor market that has been affected, while the last part emphasizes on the issue of increasing educational attainment in the country.

**3.3.3. Income inequality**

Following the liberalization of trade policy in China after its reform and opening-up policy as well as its accession to the WTO, the country has experienced rapid economic growth over the past decades. In the meantime, researchers in the industry have become increasingly concerned about the overall situation of labor income distribution in China and the influence of trade liberalization on it. Many studies have found out that income inequality increased sharply since the trade liberalization (Jain-Chandra, et al., 2018).

Figure 13 indicates the Gini coefficient in China,<sup>30</sup> illustrating an increase in income inequality from the country's accession to the WTO until 2008. The Gini coefficient peaked at 0.491 in 2008, after which it started to fall, reaching a total decrease of 2.5 percentage points from 2008 to 2021. However, the Gini coefficient has been on the rise since 2015 and remains significantly higher than the warning level of 0.4 for income inequality.

Figure 13 China’s Nationwide Gini Coefficient of Per Capita Disposable Income (2003-2021)



Source: National Bureau of Statistics of China, 2023

According to the calculations of other researchers based on the average Gini coefficient for each country from 2004 to 2013, China has an average Gini coefficient of 0.482, which is among the highest in the world. This statistic is not only greater than that of developed countries and regions like the United States (0.4112) and the EU (0.305), but also higher than the Asian average of 0.3513 (Han, Zhao, & Zhang, 2016).

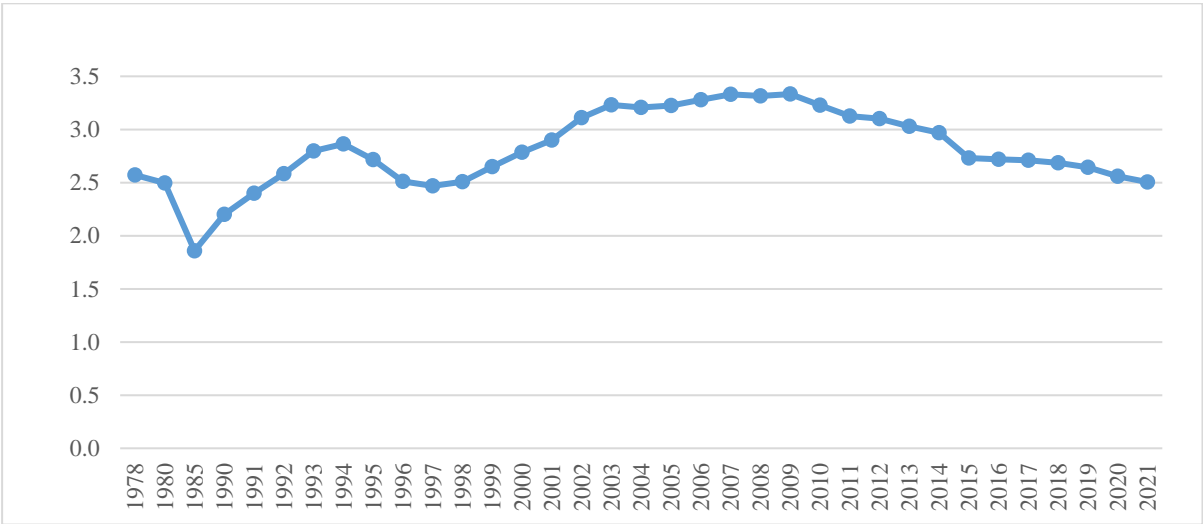
<sup>30</sup> The Gini coefficient is one of the most commonly used measures of income inequality.



3.3.3.1. Income distribution between urban and rural areas

The rising income distribution gap between urban and rural households is a significant contributor to China’s income inequality. As seen in the following Figure 14, the income gap between urban and rural areas in China has been widening since the mid-1980s, with two waves of rising trends. The first wave occurred from the early 1980s to the early 1990s, while the second wave occurred from 1997 to 2009, particularly after China's accession to the WTO. During this period, the income gap between urban and rural areas continued to widen, with the ratio of per capita income of urban households to income of rural households reaching a peak of 3.333 in 2009, an increase of 0.86 percentage points over a decade. According to the China Statistical Yearbook, the per capita income of urban households was 17,174.7 Chinese Yuan, while the per capita income of rural households in 2009 was 5,153.2 Chinese Yuan.

Figure 14 Income gap between urban and rural areas in China (1978-2021)



Source: China Statistical Yearbook 2014 and China Statistical Yearbook 2022

The measures and policies implemented by the Chinese government to reduce the income gap between urban and rural households have played an important role in reducing the income inequality in China. These measures include the elimination of agricultural taxes, the implementation of a minimum purchase price policy for grain, as well as the increase in grain sales prices (Li Z. , 2022).

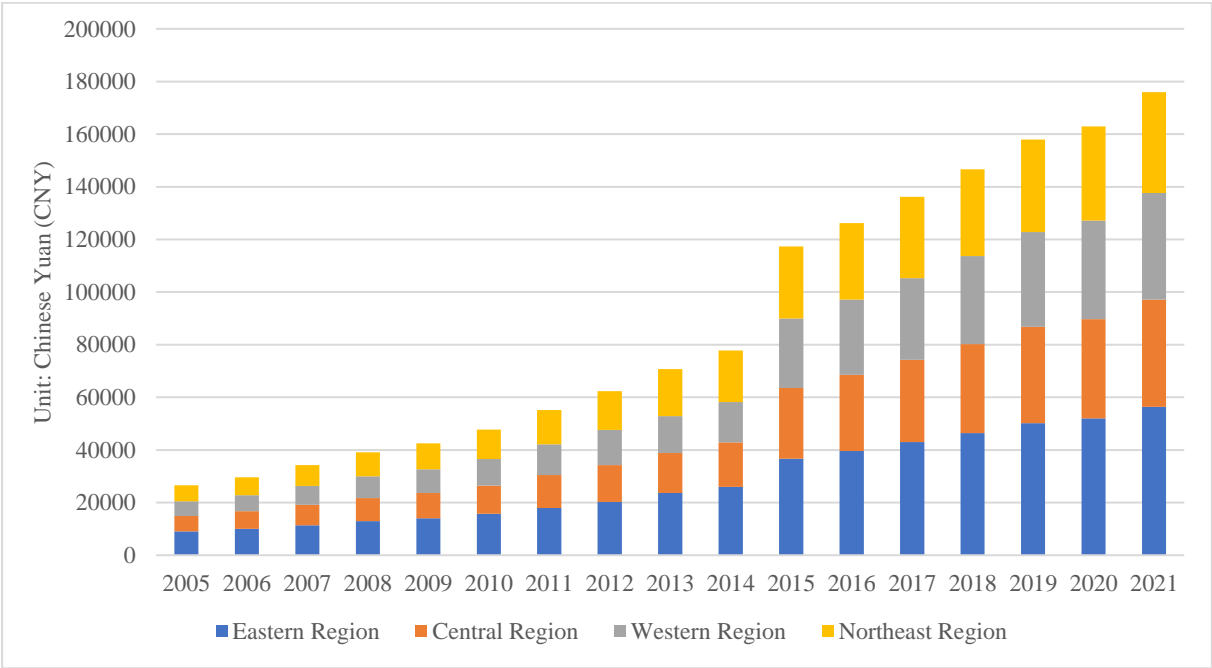
As a result, China's urban-rural income gap has shown a decreasing trend since 2009, as shown in FIGURE 10. In 2021, the ratio of urban households' per capita income to rural households' per capita income is 2.504, returning to the pre-accession level. However, despite the positive trends in income inequality, the level of inequality in China remains high by international standards. The continuous urban-rural income gap, as well as the rapid growth of private assets and wealth income, have contributed to these inequality trends (Li & Sicular, 2014).

3.3.3.2. Income distribution among regions in China

Income inequality across regions in China is also a significant contributor to overall income inequality in the country. A previous study has shown that the gap in labor income distribution among Chinese residents widens as trade liberalization continues to develop (Li Z. , 2022). However, this analysis also has limitations, as it suggests that the increasing scale of export trade will eventually reduce the gap in labor income distribution. Although the expansion of product exports creates a higher demand for workers and helps to decrease the unemployment rate, it can also exacerbate the problem of regional income inequality. This is because an increase in export trade benefits firms in economically developed regions, while less developed regions often lack exporting firms, leading to a widening income gap between the two regions.

According to the China Statistical Yearbook, the country is divided into four regions: East, Central, West, and Northeast. As shown in Figure 15, the Eastern region of China is the most developed region, with an average income of 56,373.8 Chinese Yuan in 2021, which is higher than the other three regions.

Figure 15 Per capita disposable income by region in China (2005-2021)

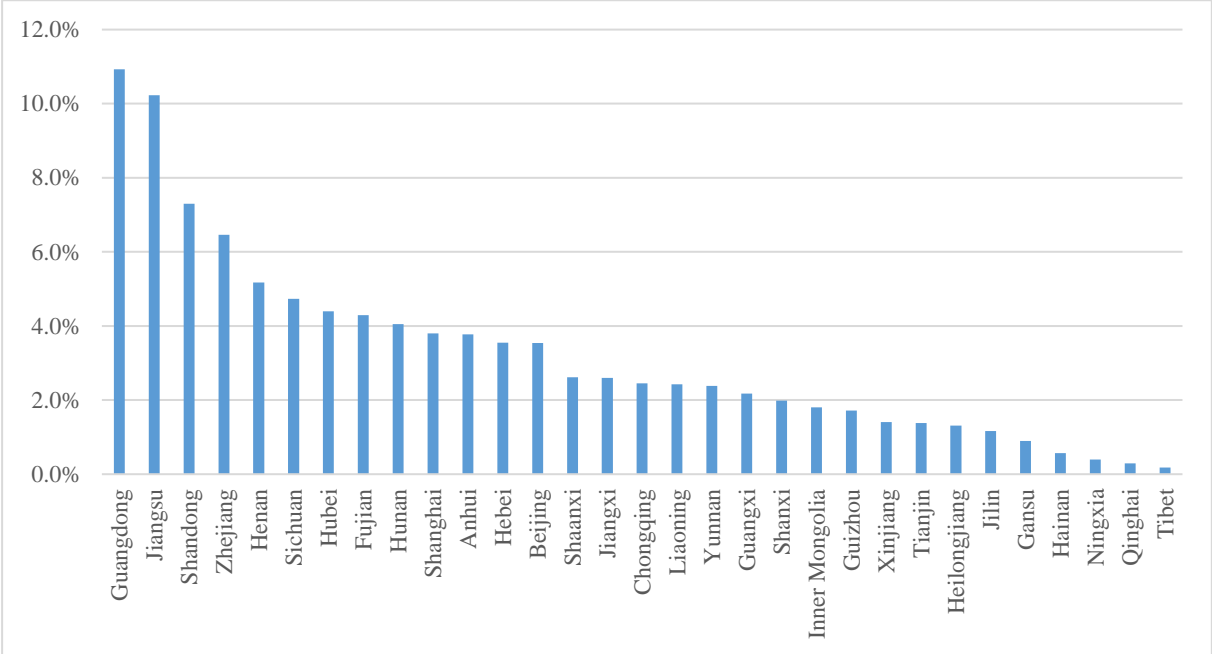


Source: China Statistical Yearbook

According to the GDP ranking of the 31 Chinese provinces in 2021 published by China Statistical Yearbook, the top three provinces with the greatest GDP in 2021 were Guangdong, Jiangsu, and Shandong provinces. In 2021, the GDP of Guangdong was worth 12,436.97 billion Chinese Yuan, accounting for 10.9% of the total GDP in China, making it the top GDP province in the country. One of the main reasons for its high GDP value is the well-developed trade in Guangdong, with the province accounting for about 40% of China's trade and over 50% of processing trade in 1997 (Vennemo, 2008).

Tibet is the least developed province, with a GDP value of 208.02 billion Chinese Yuan in 2021, accounting for 0.2% of China’s total GDP. As shown in Figure 16, the provinces with the greatest GDP shares are mainly located in the southern and eastern coastal regions of China, while the provinces with the lowest GDP shares are mostly located in the western interior regions.

Figure 16 GDP share of China, by province and city



Source: China Statistical Yearbook

The establishment of SEZs in the coastal regions at the beginning of the trade liberalization in China is a major contributor to the income inequality between coastal and inland regions. Previous findings have shown that, compared to other cities, cities with preferential policies, such as SEZs, are able to increase household disposable income per capita at a higher rate (Valerio Mendoza, 2016). Therefore, the income gap between coastal and interior areas has expanded, contributing to overall income inequality in China.

**3.3.4. Regional labor market**

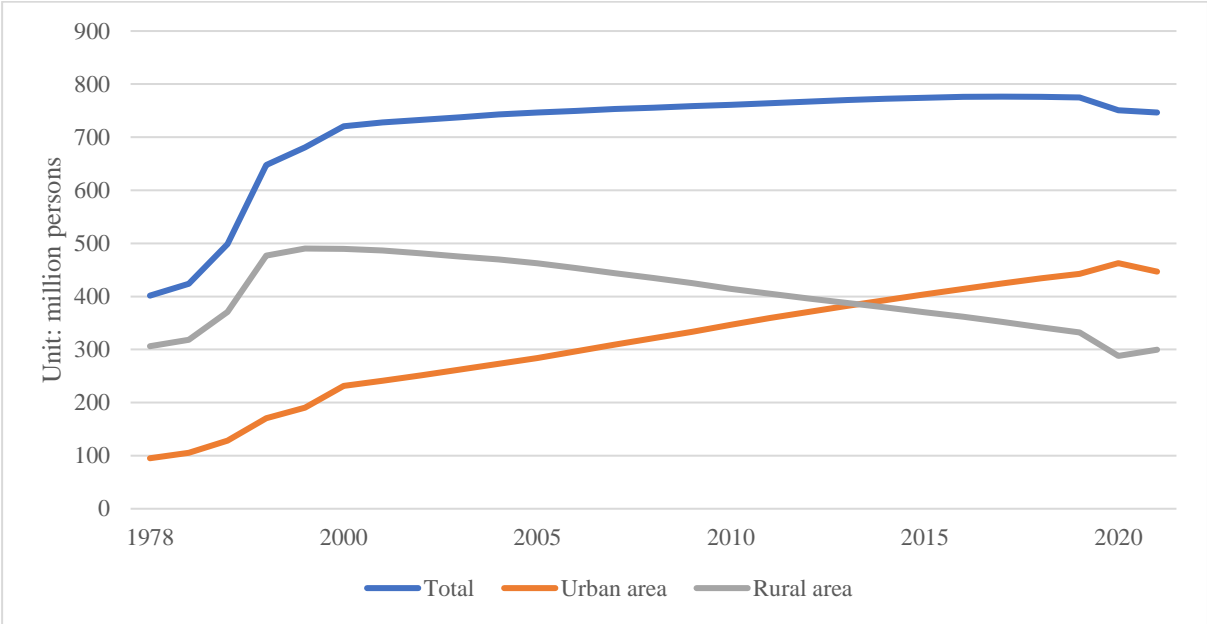
Since its accession to the WTO, China's exports have increased significantly due to the reduction of tariffs and the elimination of non-tariff measures. However, from the perspective of the United States, the increase in imports from China resulted in a decline in manufacturing employment in the United States, which has been a focus of discussion in recent years (Pierce & Schott, 2016). These studies suggest that China has benefited considerably from its WTO membership in terms of increased trade exports and job creation.

However, trade liberalization has also had a significant impact on China's labor market, with the majority of its impacts concentrated in the country’s eastern coastal region. The eastern region has experienced greater trade liberalization compared to the central and western regions,

resulting in the migration of labor to the east and a concentration of informal employment in the region (He & Zhou, 2019). As a result, trade liberalization has resulted in a massive migration of labor workers from rural to urban areas within China (Facchini, Liu, Mayda, & Zhou, 2019). Furthermore, studies indicate that labor tends to migrate to cities with liberalized input trade and low tariffs, particularly for highly skilled labor (Zhou, Ni, & Xiong, 2022).

As shown in Figure 17 below, according to China's National Bureau of Statistics, the major change in China's labor market over the previous three decades has been the rapid rise in the overall number of urban employments, which surpassed the total number of rural employment for the first time in 2014. The total urban employment increased from 241.23 million in 2001 to 446.73 million in 2021, accounting for 59.8% of the country's total employment. It has been shown that trade liberalization has contributed to the expansion of informal employment, and the higher the degree of trade liberalization, the greater the increase in total and informal employment (He & Zhou, 2019).

Figure 17 Number of Employed Persons in Urban and Rural Areas (1978-2021)



Source: China Statistical Yearbook, Statistical Communiqué of the People's Republic of China on the National Economic and Social Development

**3.3.5. Decrease in educational attainment in China**

According to China's last five National Censuses<sup>31</sup>, the country's educational attainment has shown a gradual increasing trend<sup>32</sup>, and the negative impact of China's accession to the WTO

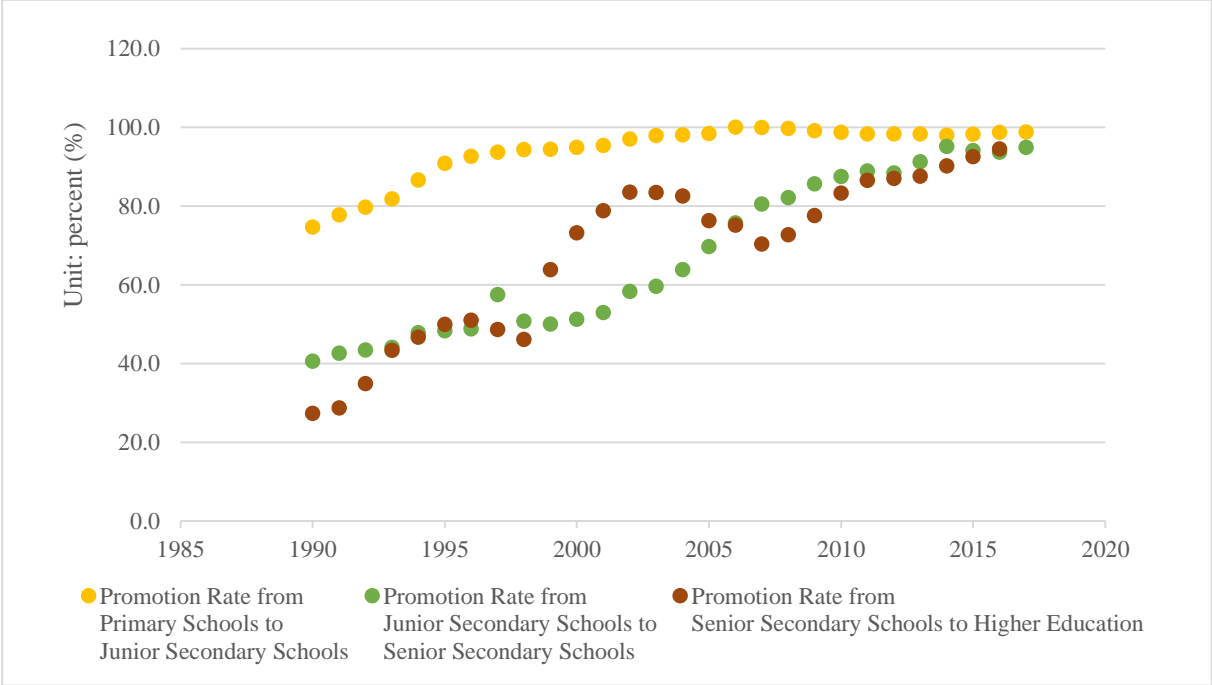
<sup>31</sup> The last five National Population Censuses in China are reported by China's National Bureau of Statistics, which are, respectively, the Third National Population Census conducted in 1982; the Fourth National Population Census conducted in 1990, the Fifth National Population Census conducted in 2000, the Sixth National Population Census conducted in 2010, and the Seventh National Population Census conducted in 2020.

<sup>32</sup> See Appendix V.

on education seems to be less significant. One of the reasons is the educational reforms introduced in China at the beginning of the twenty-first century, including the implementation of nine-year compulsory education policy between 2006 and 2008 (The Central People's Government of China, 2006). The reform led to an increase in the number of children of primary and junior secondary school age who were eligible for free education. Therefore, the impact of China's accession on education may not be accurately reflected by the authors' estimations, as other factors may have influenced the promotion rates of each school grade in China.

However, the authors' examination of the promotion rates of each grade in China revealed that the rates are not continuously increasing every year, as seen in Figure 18. Despite an overall increasing trend in China's promotion rates, the rate of promotion from high school to higher education dropped from 83.5% in 2002 to 70.3% in 2007, with a rapid decline of 13 percentage points in five years, returning to pre-2000 levels. Even with the implementation of the nine-year compulsory education policy, the promotion rate from primary schools to junior secondary schools fell from 100% in 2006 to 98% in 2014. This is mainly due to the increase in exports of unskilled labor-intensive industries after WTO accession. This has resulted in an increased demand for unskilled child labor in these industries, causing a large number of Chinese students to drop out of school and resulting in a decline in China's overall rate of promotion and educational attainment over the years (Zhao, Wang, & Zhao, 2021; Liu M. , 2023).

Figure 18 Promotion Rate of Graduates of Regular School by Levels (1990-2017)



Source: China Statistical Yearbook 2018

In addition, Liu's findings from a random sample of China's 2005 "mini" population census data conducted by the National Bureau of Statistics support this perspective.<sup>33</sup> Liu's findings indicated that, despite the national average rate of high school enrollment has continued to increase steadily, the growth rate of high school enrollment is not uniform among provinces and cities. Furthermore, the study found that high school enrollment growth rates were concentrated in typically economically developed areas, for instance, Beijing, Shanghai, and Shenzhen. However, on the other hand, high school attainment has declined in the Northeast and Western regions (Liu M. , 2023).

Ling and Long's study provides further support for the negative impact of China's export expansion on educational attainment, particularly among youth education. Their study discovered that China's accession to the WTO led to an average reduction of two months of schooling for youth, with the reduction in educational attainment primarily attributed to processing exports and resulting in increased school dropout rates, particularly among youth from rural areas (Lin & Long, 2020).

In contrast, the study also found that individuals with at least a high school education experienced an increase of 2 months of schooling, and that only urban youth benefited from this positive effect of WTO accession on educational attainment, possibly due to greater access to college education in urban areas (Lin & Long, 2020). This finding helps to explain why China's promotion rates and educational attainment continued to increase despite the negative impact of WTO accession on educational attainment in less developed regions, particularly in rural areas.

On the other hand, the increasing trend in the promotion rate from senior secondary school to higher education in China, as shown in Figure 18, experienced a rebound starting in 2008. This increase can be attributed to the positive impact of the national environment of the nine-year compulsory education policy and the reduction in the financial burden of schooling.

It is worth noting that as China is shifting from unskilled labor-intensive industries to skilled labor-intensive industries, the negative impact of the country's decreasing educational attainment may diminish. This is due to the fact that the former is expected to increase the demand for unskilled workers, while the latter is expected to increase the demand for skilled workers. As a result, increases in a country's agricultural or low-skill manufacturing exports can decrease its educational attainment, while increases in skill-intensive exports can lead to an increase in its educational attainment (Lin & Long, 2020).

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<sup>33</sup> According to Liu's study, China's 2005 "mini" population census refers to a survey sampling 1% of the entire Chinese population. The author used a 20% random sample of the survey data, which was restricted to a group aged 18-32 in 2005. Therefore, the samples used in the study represent the graduating classes from 1991 to 2005.

### 3.4. Summary

This chapter presents the various levels of impacts that China's accession to the WTO has brought to Chinese society. While China's import and export trade is growing rapidly, the rise of geoeconomics and increasing TPU in recent years pose potential threats to China.

From the perspective of industry breakdown, China's agriculture and automotive industries are the most affected ones after WTO accession. Due to the lack of development of these industries in China, a number of foreign companies have rapidly flooded into the country following the reduction of tariffs and the elimination of non-tariff protection measures after WTO accession, causing a loss of competitiveness for domestic companies. As a result, China's imports are consistently greater than exports in these two industries.

In terms of income distribution, China's Gini coefficient is far above the warning level and income inequality has been a persistent issue since its accession to the WTO. The income gap between rural and urban areas is a major concern, as well as the fact that incomes in the western and northeastern regions of China are much lower than those in the eastern and southern regions, where the SEZs are located.

Labor distribution has also been affected, as urban areas have undergone more rapid development compared to rural areas, resulting in the migration of workers from rural areas to urban areas.

In terms of educational attainment, due to the rapid growth of labor-intensive industries in China, there has been an increased demand for unskilled labor, resulting in many school-age children, mainly from rural areas, dropping out of school and moving to urban areas to work.

## CHAPTER 4: CONCLUSIONS

Since its accession to the WTO, China has taken a number of pledges and measures to reduce tariffs and eliminate non-tariff measures (NTMs) and has adjusted its domestic economic market to comply with WTO standards. Since becoming a member of the WTO over two decades ago, China has experienced significant impacts on its politics, economy, and society.

Firstly, the present study demonstrates that China's accession to the WTO has had a positive impact on its politics. In the context of economic globalization, China's soft power - its rising economic power has enhanced its international standing, posing a threat to the status of the United States as a superpower. However, the recent rise in trade policy uncertainty (TPU), particularly the trade conflict between China and the United States, has demonstrated that China cannot rely solely on global trade or a single trading partner.

Secondly, the results of this paper also show that China's accession to the WTO has had a generally positive impact on its economy. The most significant change is reflected in China's integration into the process of economic globalization as a result of its accession to the WTO in the past 20 years. In recent years, China has experienced a rapid increase in trade flows, its import and export trade has ranked first in the world, reaching a total value of 4,658.67 billion US dollars in 2020, and consistently maintaining a trade surplus since its accession. Moreover, China's economy has expanded rapidly, with its GDP rising from 1,340 billion US dollars in 2001 to 17,730 billion US dollars in 2021 - an average annual growth rate of 8.67% - making it the world's second-largest economy after the United States.

In addition, this paper examines the total value of imports and exports in various industries, and it is discovered that China has made significant improvements in both the manufacturing and service sectors. Since its accession to the WTO, China has performed particularly well in labor-intensive industries, such as the textile and clothing industry, as well as the electronics industry. Given its low labor costs, China has gradually increased its exports year after year and has become the world's leading export manufacturer in these industries. Furthermore, China's service sector, which had experienced a downturn in the past, has shown significant progress since its accession to the WTO. The service sector's share of China's GDP has increased continuously over the years, reaching 53% in 2021, yet it remains below the global average. Additionally, China has been successful in attracting significant amounts of foreign direct investment (FDI). The establishment of Special Economic Zones (SEZs) and Economic and Technical Development Zones (ETDZ) in the country has played an essential role in attracting technology or knowledge-intensive FDI, resulting in the development of technology-intensive industries. It is worth noting that China is shifting from a labor-intensive to a skill-intensive economy, with an emphasis on improving the skills of its workforce.

However, in the context of economic globalization, China's economy has become increasingly reliant on foreign resources, particularly from developed countries. As a result, China has



become more vulnerable to the external economic environment, which has increased the overall risk to its economy in comparison to the time before its accession to the WTO. This phenomenon highlights the challenges and risks connected with China's increasing reliance on foreign resources in an era of economic globalization.

Lastly, the present study illustrates that China's accession to the WTO has also posed challenges to the country from a social perspective. This paper examines data from China's Statistical Yearbook and identifies income inequality as a major concern, mainly reflected in the income inequality between urban and rural areas, as well as the wide income gap between less developed regions in the West and more developed areas such as SEZs in the Southeast. Despite the government's efforts to narrow the income gap by eliminating agricultural taxes, China's Gini coefficient has consistently remained above the international warning level of 4.0 for income inequality. As a result, a large number of laborers have migrated from rural to urban areas. Moreover, by analyzing promotion rates across various school levels, this paper finds that the rapid growth of labor-intensive industries has had a negative impact on education. Despite the government's introduction of a nine-year compulsory education policy, the increased demand for unskilled labor has led to a greater dropout rate among school-age children in rural areas, consequently lowering China's overall level of educational attainment. In contrast, the growing demand for skilled workers as a result of the expansion of technology-intensive industries has resulted in a progressive increase in the educational attainment of school-age youth in urban areas. The agriculture and automotive industries have suffered the most as a consequence of China's accession to the WTO. Following the accession, a large number of foreign companies entered the relevant industries, causing domestic companies to lose competitiveness due to the lack of development and low productivity. As a result, China has experienced a continuous trade deficit in these industries and has become heavily reliant on foreign firms. Notably, the auto parts and components manufacturing industry in China has grown significantly, with exports going further than imports. This growth can be attributed to the fact that the auto parts manufacturing industry is a labor-intensive industry rather than a skill-intensive industry.

Overall, the impact of China's accession to the WTO has been positive, particularly in terms of political and economic implications, despite the challenges of unequal distribution on the social side. China has achieved significant success, including remarkable growth in economy and trade, resulting in a rise in its national power. Although particular industries like agriculture and automotive require more development, China's progress in labor-intensive industries such as manufacturing is remarkable, resulting in an overall export value that exceeds the import value. Therefore, it is recommended that China strengthen its skill-intensive industries through innovation and technology development. Furthermore, it is advisable for policymakers to undertake additional supportive measures for rural areas and less developed regions to address the issue of income inequality and declining educational attainment.

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# Appendix I China's application to access to the GATT

## GENERAL AGREEMENT ON TARIFFS AND TRADE

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RESTRICTED

L/6017

14 July 1986

Limited Distribution

Original: English

### CHINA'S STATUS AS A CONTRACTING PARTY

#### Communication from the People's Republic of China

The following communication from the Permanent Representative of the People's Republic of China, dated 10 July 1986, has been received by the Director-General for distribution to contracting parties.

---

I have the honour to inform you that the Government of the People's Republic of China, recalling the fact that China was one of the original contracting parties to the General Agreement on Tariffs and Trade, has decided to seek the resumption of its status as a contracting party to GATT.

China is currently pursuing the basic national policy of opening to the outside world and revitalizing the domestic economy and will adhere to it in the years to come. It is the firm belief of the Government of the People's Republic of China that the ongoing process of economic reform will contribute to the expansion of economic and trade relations with the contracting parties, and that the participation of China as a contracting party in the work of the GATT will further the objectives of the General Agreement. China is a developing country. The Chinese Government expects to receive treatment equivalent to that accorded to other developing contracting parties.

China is prepared to enter into negotiations with GATT contracting parties on the resumption of its status as a contracting party. To this end, it will provide information on its economic system and foreign trade régime.

I shall feel obliged if you could transmit this request of the Government of the People's Republic of China to the contracting parties for their consideration.

86-1126

Source: WTO, 2023

## Appendix II Non-tariff subsidies in China (1990-1998)

Unit: 100 million RMB

Sector/ Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
Metallurgic industry	1.16	1.46	1.35	3.13	4.07	3.02	5.04	10.96	8.36
Ferrous-metal industry	0.63	0.86	1.28	1.51	5.80	5.86	4.78	6.58	4.65
Machinery industry	3.80	5.07	14.61	3.98	14.09	8.34	9.67	11.17	8.38
Coal industry	55.86	66.70	70.14	49.80	47.19	12.13	13.21	16.83	14.85
Oil industry	42.53	54.36	52.89	28.08	0.00	0.00	0.00	6.78	3.28
Chemical industry	3.83	4.03	3.70	4.11	6.90	3.47	4.26	5.32	4.96
Textile industry	1.90	2.39	2.07	3.09	2.65	3.38	6.97	16.41	15.36
Light industry	6.65	7.88	6.31	9.30	3.99	1.52	2.63	6.82	2.35
Tobacco industry	0.00	0.00	0.00	0.00	12.00	8.62	9.26	10.25	8.83
<u>Total of the nine sectors</u>	<u>116.36</u>	<u>142.75</u>	<u>152.35</u>	<u>103.00</u>	<u>96.69</u>	<u>46.34</u>	<u>55.92</u>	<u>91.12</u>	<u>71.02</u>
Other sectors	1.65	1.94	1.99	1.53	1.24	0.42	1.28	4.62	3.67
<u>Total</u>	<u>118.01</u>	<u>144.69</u>	<u>154.34</u>	<u>104.53</u>	<u>97.93</u>	<u>46.76</u>	<u>57.20</u>	<u>95.74</u>	<u>74.69</u>

Source: WTO, 2001, the State Council of China, 2002



### Appendix III The export value of China (1991-2020)

Country/ Year	Import from China (Unit: US\$ Billion)					
	World	United States	Japan	Germany	Korea, Rep.	Singapore
1991	57.7	20.3	14.2	7.0	3.4	2.2
1992	73.5	27.5	16.9	7.5	3.7	2.3
1993	141.5	33.7	20.4	8.3	3.9	2.4
1994	181.4	41.3	27.5	9.5	5.5	2.9
1995	220.2	48.5	36.0	11.2	7.4	4.0
1996	244.0	54.4	40.4	12.0	8.5	4.4
1997	279.0	65.8	41.9	12.3	10.1	5.7
1998	282.5	75.1	37.1	13.0	6.2	4.9
1999	318.5	87.8	42.9	14.5	8.9	5.7
2000	405.8	100.0	55.1	16.9	12.8	7.1
2001	421.2	102.3	57.9	17.7	13.3	7.2
2002	504.8	133.5	61.8	20.1	17.4	8.9
2003	639.2	163.3	75.5	28.4	21.9	11.1
2004	845.5	210.5	94.3	40.4	29.6	16.2
2005	1053.5	259.8	108.5	50.6	38.6	20.5
2006	1286.7	305.8	118.5	62.8	48.6	27.4
2007	1555.2	340.1	127.9	75.0	63.0	32.0
2008	1781.4	356.3	143.2	90.6	76.9	33.8
2009	1516.8	309.5	122.6	79.3	54.2	26.0
2010	1937.8	383.0	153.2	103.8	71.6	33.7
2011	2221.1	417.3	183.9	112.6	86.4	38.3
2012	2303.6	425.6	188.5	102.6	80.8	39.7
2013	2392.8	440.4	181.0	100.3	83.1	44.0
2014	2528.0	486.3	181.3	107.6	90.1	44.4
2015	2472.4	504.0	160.6	103.3	90.2	42.1
2016	2395.3	481.3	156.6	105.7	87.0	40.5
2017	2645.5	525.8	164.5	116.5	97.9	45.3
2018	2863.3	563.2	173.7	126.8	106.5	49.6
2019	2728.3	472.5	169.3	124.4	107.2	49.0
2020	2681.4	457.2	163.9	134.9	108.9	47.4

Source: World Integrated Trade Solution, 2023

## Appendix IV The import value of China (1991-2020)

Country/ Year	Export to China (Unit: US\$ Billion)					
	World	Japan	United States	Germany	Canada	Indonesia
1991	26.1	8.6	6.3	2.5	1.6	1.2
1992	37.0	11.9	7.5	3.7	1.9	1.4
1993	96.0	17.2	8.8	5.8	1.3	1.2
1994	113.5	18.7	9.3	6.4	1.7	1.3
1995	138.7	22.0	11.7	7.5	2.5	1.7
1996	151.5	21.9	12.0	7.2	2.2	2.1
1997	160.7	21.7	12.8	5.9	1.7	2.2
1998	149.3	20.1	14.3	6.7	1.7	1.8
1999	157.0	23.3	13.1	7.3	1.8	2.0
2000	228.0	30.4	16.2	8.6	2.4	2.8
2001	242.2	31.0	19.2	10.7	2.8	2.2
2002	295.0	39.8	22.1	13.7	2.6	2.9
2003	408.5	57.4	28.4	20.6	3.4	3.8
2004	532.3	73.9	34.4	26.1	5.2	4.6
2005	619.0	80.1	41.2	26.3	6.0	6.7
2006	749.1	92.8	55.2	34.6	6.9	8.3
2007	914.1	109.3	65.2	41.1	8.9	9.7
2008	1022.0	124.9	71.5	50.4	9.9	11.6
2009	984.8	109.7	69.6	52.3	9.8	11.5
2010	1333.1	149.5	91.9	71.6	12.9	15.7
2011	1616.8	162.0	104.1	90.6	17.0	22.9
2012	1624.2	144.2	110.5	86.2	19.4	21.7
2013	1748.6	129.4	121.7	89.3	19.9	22.6
2014	1741.9	126.4	123.7	99.2	17.4	17.6
2015	1537.1	109.3	116.1	79.4	15.8	15.0
2016	1525.8	113.8	115.6	84.5	15.8	16.8
2017	1786.8	132.8	129.8	97.5	18.2	23.1
2018	2000.8	144.0	120.1	110.5	21.4	27.1
2019	1931.6	134.7	106.6	108.3	17.5	28.0
2020	1936.1	141.4	124.6	110.4	18.9	31.8

Source: World Integrated Trade Solution, 2023

## Appendix V Population of various educational levels

	1982	1990	2000	2010	2020
<b>Total Population</b>	<u>1,031,882,511</u>	<u>1,160,017,381</u>	<u>1,295,330,000</u>	<u>1,370,536,875</u>	<u>1,443,497,378</u>
Number of people with university education level	6,016,969	16,124,678	45,710,000	119,636,790	218,360,767
Number of people with high school education level	66,478,028	91,131,539	141,090,000	187,985,979	213,005,258
Number of people with junior secondary school education level	178,277,140	264,648,676	429,890,000	519,656,445	487,163,489
Number of people with elementary education level	355,160,310	420,106,604	451,910,000	358,764,003	349,658,828
Number of illiterate and semi-literate population	235,820,002	180,030,060	85,070,000	54,656,573	37,750,200

Source: National Bureau of Statistics of China, 2023. Data collected from the last five National Population Census of China.

## Appendix VI Schedule of Concessions and Commitments on autos

HS	Description	Bound rate at date of accession	Final Bound rate	Implementation	Present concession established	INR	Concession first incorporated in a GATT Schedule	Earlier INRs	ODCs
87029020	---With 20 seats or more but not exceeding 29 seats	55	25	2005		JP, US			0
87029030	---With 10 seats or more but not exceeding 19 seats	55	25	2005		JP, US			0
8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No 8702), including station wagons and racing cars:								
87031000	-Vehicles specially designed for traveling on snow, golf cars and similar vehicles	28.7	25	2002		JP, US			0
	-Other vehicles, with spark-ignition internal combustion reciprocating piston engine:								
	--Of a cylinder capacity not exceeding 1,000 cc:								
87032130	---Saloon cars	51.9	25	1 July 2006		JP, PL, US			0
87032190	---Other	51.9	25	1 July 2006		JP, KR, US			0
	--Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc:								
	---Assembled:								
87032230	---Saloon cars	51.9	25	1 July 2006		JP, PL, US			0
87032240	---Cross-country cars (4WD)	51.9	25	1 July 2006		JP, US			0
87032250	---Station wagons (with 9 seats or less)	51.9	25	1 July 2006		JP, US			0
87032280	---Other	51.9	25	1 July 2006		JP, US			0
	--Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc:								
	---Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc:								
87032314	----Saloon cars	51.9	25	1 July 2006		AU, JP, PL, US			0
87032315	----Cross-country cars (4WD)	51.9	25	1 July 2006		AU, JP, US			0
87032316	----Station wagons (with 9 seats or less)	51.9	25	1 July 2006		AU, JP, US			0
87032319	----Other	51.9	25	1 July 2006		AU, JP, US			0
	--Of a cylinder capacity exceeding 2,500 cc but not exceeding 3,000 cc:								
87032334	----Saloon cars	51.9	25	1 July 2006		AU, JP, US			0
87032335	----Cross-country cars (4WD)	51.9	25	1 July 2006		AU, JP, KR, US			0
87032336	----Station wagons (with 9 seats or less)	51.9	25	1 July 2006		AU, JP, KR, US			0
87032338	----Other	51.9	25	1 July 2006		AU, JP, US			0

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Source: WTO Doc. WT/ACC/CHN/49/Add.1. p.390