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**Autor:** Yeliang, Xia  
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**Xia Yeliang**

The author has a Ph.D. from Beijing University and is active as a post-doctoral research. Fellow at the China Center for Economic Research, Beijing University Beijing 100871, P.R.China, Tel.: 00 86 10-62755594 62753109; Fax: 62751474; E-mail: pkuxyl@hotmail.com; xiayel@yahoo.com

## TOWARD GLOBALIZATION: CHINA'S RESPONSE AND STRATEGY

*Top leaders as well as ordinary people in China regard the WTO accession as the second most important change in China's economic policy regime, following Deng Xiaoping's reform and opening-door policy in the late 1970s. This change will have undoubtedly profound impacts on the future course of China's economic development.*

With endless arduous efforts to approach accession to the WTO, which is somehow considered as the first momentous step toward globalization, it is most likely that China will be admitted to the WTO by the end of this year or early next year.

There are many discussions among academic and policy circles in China regarding the possible impacts of WTO accession on the Chinese economy. Some are very positive about the accession. They believe that any drawback will be overwhelmed by the efficiency gains, injecting new growth impetus into China's reform and economic development. According to them, China will enter an entirely new development stage.

However, some other people are worried that China's weak economic base, due to the unfinished transition from a planned to a market economy, would not be able to sustain the tremendous external shocks brought by entry to the WTO. They argue that the WTO accession will do more harm than good to the Chinese economy.

Professor *Justin Yifu Lin*, the founding director of the China Center for Economic Research, Peking University, stated that before the expiration of the grace periods in the bilateral agreements, most sectors in the Chinese economy would still be protected. However, in anticipation of the opening up of China's domestic markets to foreign firms after the expiration of a grace period, foreign direct investments from multinational companies will increase substantially immediately after the accession.

Therefore, the accession should bring an immediate boost to investments and a

spurt to economic growth in the Chinese economy in the immediate short term. In the long run, membership of the WTO will undoubtedly enable the Chinese economy to enjoy closer integration with the world economy, facilitating a better access to foreign technology, capital and world markets. Therefore, the accession will be beneficial to China's overall economic growth in the long run.

The real challenge to the Chinese economy will be in the medium term after the expiration of the grace period and before the completion of the Chinese economy's adjustments to the long-term equilibrium. The medium-term challenges will certainly be different from one sector to another, depending on the gains and adjustments that the sector needs to make.

Of implications to China's accession to the WTO for domestic sectors, an impact on China's agricultural sector is of particular importance as it links to sensitive issues such as rural income, food security, etc.; as a result, the significance of the debate on the issue of agriculture in China's GDP or its external trade. Evidence from data on international trade flow suggests that imports of the land-intensive bulk agricultural products such as grain, oil-bearing products, are likely to grow as a result of the WTO accession, whereas net exports of labor-intensive products such as aquatic products, vegetables and fruits may further expand.

### **Some Strategic Approaches**

To appropriately manage the process of agricultural liberalization, it is initially important to implement the policy of do-

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mestic agricultural structural adjustment on the basis of market mechanism. The Government needs to minimize its excessive administrative intervention in the agricultural sectors, which are quite often proposed and implemented on the basis of food security argument in line with the domestic regional relative costs necessary for the Chinese agricultural system to better respond to the potential export opportunities for the agricultural products in which China enjoys a comparative advantage.

On the other hand, a lot of things need to be done to improve information systems, quality-control procedures as well as marketing skills for the Chinese farmers and firms producing agriculturally processed products in order to fully benefit

from the potential opportunities of international trade.

Second, the negative effects of the possible import surge for agricultural products needs to be taken seriously. Particular attention should be paid to the inland and western provinces and regions which either benefit little from the accession to the WTO or are relatively separate from the outside market, which may result in an even larger gap between the regions and coastal provinces than that existing now. To help these regions more effectively, the Chinese government at the central level and provincial level may need, among other things, to take more responsibility in financing rural obligatory education rather than providing direct subsidies to agricultural productive activities.

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### Some facts on imports and exports

Table 1: China's Trade with the World (\$ billion), 1990–1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Accumulated
Exports	62.1	71.9	84.9	91.7	121.0	148.8	151.1	182.7	183.8	194.9	1292.9
Imports	53.3	63.8	80.6	104.0	115.6	132.1	138.8	142.4	140.2	165.7	1136.5
Balance	8.8	8.1	4.3	-12.3	5.4	16.7	12.3	40.3	43.6	29.2	156.4
Total	115.4	135.7	165.5	195.7	236.6	280.9	289.9	325.1	324.0	360.6	2429.4

Source: PRC General Administration of Customs, China's Customs Statistics, July 2000.

Since Minister *Shi Guangsheng* of the Chinese Ministry of Foreign Trade and US trade representative *Charline Barshefski* signed the China-US WTO accord on November 15, 1999, China's accession to the WTO seems a realistic likelihood. Many studies on the impacts or implications of China's WTO membership have been conducted. This fact alone is a clear indication of the importance of the issue.

As most of the studies point out, trade liberalization in China will increase both the imports and exports of China. Since the sectors being liberalized the most are the ones in which developed countries have comparative advantages, imports from developed country will grow most rapidly. China's WTO membership will significantly increase trade between China and developed countries.

The expansion of trade and FDI from developed countries will, in turn, change the industrial structure of the Chinese economy. Resources will move away from land-intensive agriculture, resource-intensive manufacturing, and some capital/technological industries, to labor-intensive products or the sectors that have potential comparative advantage and market sizes.

More significantly, China's WTO membership may help the Chinese government to break through political, economic, and ideological deadlocks and set up the ultimate goal and road map of the economic transition. Pressures from internal and external economies may push China to complete the last and most difficult stage

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of reform: ownership reform. Through adjustment and reforms, the Chinese economic system may well converge with the system that all the WTO members have adopted.

China's WTO membership implies that China is not only integrating with the world market but also converting to the world economic system. China is entering a new stage of reform and development. Like the agricultural reform in 1978, China's accession to the WTO will mark another milestone in its modern history. China has successfully achieved high growth under a more open environment. Reforms under the WTO framework will take China to a higher level of economic performance. ♦

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*Du reichtest mit der Hand die Pflaumen mir,  
Vergelte dir dafür denn ein Saphir;  
Doch nicht vergelt er's, nein,  
Stets dein dafür soll meine Liebe sein.*

*Aus einem über 2500 Jahre alten Gedicht aus dem klassischen konfuzianischen «Buch der Lieder», der ältesten Gedichtsammlung Chinas.*

*Zit. in: Harro von Senger, Strategeme, Band I, S. 408.*