

**THE IMPACT OF CHINA IN THE GLOBAL MARKET:
FROM THE ADMISSION TO THE WTO TO THE IMPLICATIONS FOR
LATIN AMERICA**

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SUMMARY

The purpose of this article is to analyze the effects of the full admission of China to the global market, a political-economic opening and insertion process which with the admission for the World Trade Organization (WTO) is a key factor that makes it possible to explain the growing trend of China's commercial positioning in both the markets of developed countries and non traditional export markets. Amazingly, this extension of China's positioning in the international economy is also seen in the financial sphere to an extent that Chinese investments abroad have produced an impact in the international capital market. This double impact has very important implications for Latin American economy. In this sense, this work gets inside the political-economic relationships and tensions produced by the presence of China in countries which supply oil and raw materials not only modifying in this way the perspectives of supplies markets at an international level but also conditioning the design and implementation of economic policies to serve the goals for national development in each case studied.

KEYWORDS: INTERNATIONAL ECONOMY, GLOBAL MARKET, LATIN AMERICA, CHINA

JEL: F13, F53, 024

1. INTRODUCTION

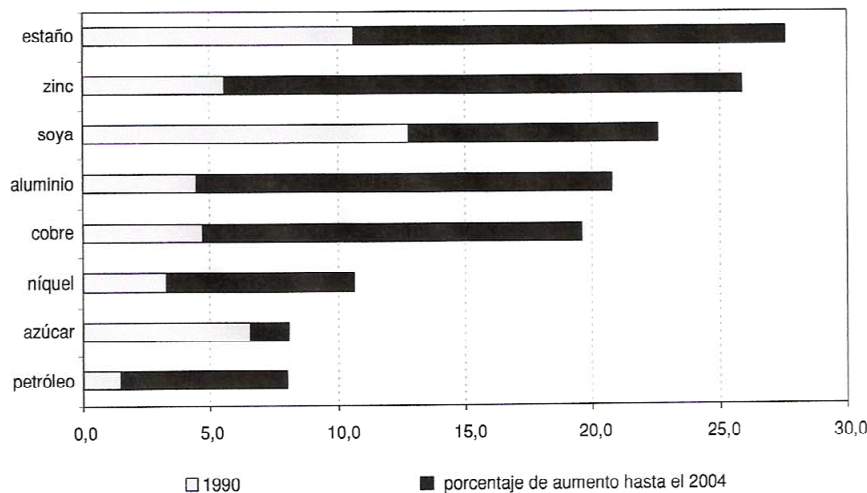
Over the last years, China has proved to have a very important role to play in the global economy in different areas and in the production, international trade and foreign direct investment in particular. If we take into account the average gross domestic product (GDP) at current prices, in 2005 China was the fourth biggest economy in the world after the United States of America, Japan and Germany, overtaking Great Britain and France. If the GDP is measured using the purchasing power parity, China appears as the second global economy after the United States. Chinese economy grew 10.2% in 2005 thanks to dynamism of internal investment and exports. This percentage confirms the growing average similar to the numbers obtained by the country over the last 28 years (ECLAC 2006).

The Basis of this Chinese supremacy is, to a great extent, its commercial capacity. When we analyze the data related to China's trade, we can see that the growth rate of both exports and imports overtake the global averages and its participation in the global commercial interchanges surpassed the 0.6% in 1997 and around 6.5% in 2004. In 1978 there were 30 countries overtaking China in commercial interchanges. 28 years after the economic reform undertaken and which allowed it to be opened to the free market China has the third place in commercial interchanges, only overtaken by the United States and Germany. In 2005 the boom of Chinese goods exports continued and it has been stressed since the beginning of the present decade. The global exports of goods increased 28% and reached the 762,000 million dollars which represented the 7.3% of the goods exports worldwide. Besides, the avalanche of Chinese exports is reducing the costs in the international market of products like toys, textiles, apparel and even products from the electronic industry.

However, maybe it is less recognized for its relevance as purchaser of the exports from the rest of the world. With this activity China has contributed to a great extent to increase the dynamism of global trade. Imports grew at a rate of 18% and reached the 660.000 million dollars which meant the 6.1% of the imports worldwide. Chart 1 shows how China in 2004 increased in a notorious way its domestic consumption proportion in the global consumption of some of the products compared to 1990.

Gráfico 1

CHINA: PROPORCIÓN DE CONSUMO INTERNO EN EL CONSUMO MUNDIAL DE ALGUNOS PRODUCTOS, 1990 Y 2004
(En porcentajes del consumo mundial por producto)



Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de *World Bureau of Metal Statistics* (WBMS), The Economist Intelligence Unit y Conferencia de las Naciones Unidas sobre Comercio y Desarrollo (UNCTAD).

As it is gathered in ECLAC (2006) the leading role of China is of special note not only in the global trade but also in the financial sphere. With its abundant and cheap offer, China offers an economic stability which helps to sustain a high demand with low inflation. Besides, China provides a cheap saving for the United States and helps to maintain under control the interest rate and accumulates reserves when it buys Treasury papers. In this way it is possible to finance the deficit in the current account of the United States. As regards China's reserves accumulation it is worth mentioning that in February 2006 reached 853.000 million dollars overtaking for the first time Japan's reserves which were 850.000 million dollars for the same month.

Resides, China has become an important recipient of foreign capital. In this first decade of XXI century China appears as an important model for the production strategies of the main transnational companies in the world. Many reports from the Economic Commission for Latin America and the Caribbean make reference to this fact, like for example ECLAC (2006): "Currently, 400 out of the 500 companies leading the worldwide ranking of Fortune magazine are already located in China not only as a result of the attractive market with 1.300 million consumers but also because the economic reforms and the commitment of Chinese authorities to transform the country into a market economy is accompanied by mid and long term ambitious goals which they plan

to use to turn China into an industrial power by 2010 and into a technological power by 2015."

Although we could highlight other economic areas in which China is reaching a hegemonic position, we can see that in all of them there is a turning point after the admission of the Asian country to the World Trade Organization (WTO). The admission of China for the international body allowed it to be more present in international markets in all the areas. With this admission China agreed to comply with some requirements with the purpose of having an increased commercial presence. In the following section I will explain in detail these requirements and the extent to which they were fulfilled. Also, I will focus on what, as far as I am concerned, is more important: the effects of the mentioned admission on the other global economies, specially focusing on what would be the effects of the admission of China to the WTO on the economic relationships with Latin America and the Caribbean.

There is no doubt that the relationship between China and the countries in Latin America is very difficult to be defined as positive or negative since China is for the Latin American countries both an opportunity and a challenge. A "love-hate" relationship that has been intensified when China was admitted to the WTO. Therefore, my goal in the third part of this work is to highlight the positive and negative aspects of the economic relationship between China and Latin America and the Caribbean countries and to be able to conclude which aspects can be enhanced by Latin America in order to obtain more profits out of this relationship.

2. EFFECTS OF CHINA'S ADMISSION TO THE WTO

At this point everybody knows about the economic reform undertaken by China in 1978 which led this country to record high growth rates and profound structural transformations during the 80s and the 90s. This growth has made it possible to see China not as an emerging economy but as the fourth world power. Once this hegemony was achieved, since the beginning of the present century China has undertaken a new reform with the purpose of achieving a growth less dependent on foreign markets. This requires the country to promote domestic industry and key markets like for example high technology, energy, telecommunications or finance. In order to do this it is necessary to have knowledge and foreign capital. China's admission to the World Trade Organization has been extremely important for this new reform.

China is admitted to the WTO on December 11th 2001. This admission allowed the Asian country to place its products in previously inaccessible markets most of which were the most dynamic ones in the global economy. The increased presence also implied higher foreign investment in the country since many restrictions previously imposed on foreign capital were eliminated. What we mentioned before is the "heads" of China's admission to the WTO, but that admission also has a "tails". Throughout this work I will focus on the negative effects on the exports from developing countries, especially on the

Latin American and Caribbean countries and on the decrease in their foreign investment as a consequence of a change in the direction towards the Asian country.

2.1. Why China enters the WTO.

When it comes down to evaluating why China made the decision to enter the WTO we can take into account two aspects: the economic one and the political one.

A) Economic motivations:

At the end of the XX century China's presence in international markets was very important and, therefore, the country had to be subjected to GATT guidelines under the supervision of WTO. The fact that China had an increasing participation in global trade caused many countries (mainly EU countries and the United States of America) to implement protectionist measures in order to reduce the number of Chinese products in their markets. The quantitative restrictions on areas like textiles, apparel, toys or footwear and the measures known as "*anti-dumping*" are of special note among these protection mechanisms.

The *dumping* is a measure adopted by certain Asian countries mainly which deals about placing their products in foreign countries at a lower price than the production cost. This practice has greatly damaged the exports of many countries since it allows Chinese products to be much more competitive. This is the reason why many countries had to adopt "*anti-dumping*" measures like the one imposed by the European Commission on March 23rd 2006 which deals with the imposition of new extraordinary import duties on leather from China and Vietnam. The European Commission decides to impose these new duties after seeing that the research they carried out found "clear evidence" of state intervention in the production of footwear in China and Vietnam with hidden subsidies in the form of credits at lower interest rates than the market, lower cost of the soil, wrong assets valuation and "tax holiday". All this allows manufacturers from those two countries to export to the EU at lower prices than the production price (*dumping*) and has caused a damage that the European Commission intends to remedy with the duties imposition.

Table 1 shows the European Union *antidumping* measures on China at the time this country was admitted to the WTO. The table shows a difference between consumer goods and industrial goods. Among the consumer goods included we find leather goods, footwear, diskettes, televisions, lighters, bicycles and their components. Among the industrial goods and intermediates stand out the silicon carbide, the magnesium oxide, the coal, the steel or iron rolls, pipelines and steel cables, electronic scales, fax machines and fluorescent lamps.

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TABLA 1			
MEDIDAS ANTI-DUMPING DE LA UE EN VIGOR FRENTE A CHINA (2001)			
	BIENES DE CONSUMO	BIENES INDUSTRIALES	TOTAL
Medidas anti-dumping en vigor	15	22	37
Medidas en reconsideración o próxima expiración	4	5	9
Investigaciones abiertas	0	2	2

FUENTE: SOLER MATUTES (2003) A PARTIR DE COMISIÓN EUROPEA (2001)

All these protectionist measures implemented by the countries which were more developed caused, in many opportunities, that their relationships and China were complicated. China's admission to the WTO implied a submission to certain rules that would guarantee the commercial relationships with the rest of the world.

Moreover, the country was aware of the fact that this entry to the organization would imply an increase in foreign direct investment and of the importance of the foreign capital and technology to foster the areas more focused on its domestic market (automotive, energy, telecommunications). Based on what has been analyzed, we can see that although China was definitely interested in becoming part of the international body, the negotiation process of the admission was not easy, as it is mentioned in Solar Matutes (2003).

Most of the developed countries were bound by agreements with China where the Most Favored Nation clause was applied. However, the presence was much more limited in areas like textiles and apparel. This is why China was especially interested in signing the GATT, but only this commercial agreement. However, the support of many of the commercial partners for the admission (especially the United States of America) would only be possible if it implied the signing of some additional agreements like the Intellectual Property Agreement (ADPIC as per its initials in Spanish or TRIPS as per its initials in English) and the Services Agreement (GAT: General Agreement on Trade in Services). Since China wanted to attract new funds to foster the most intensive areas as regards capital the only option was to give in to the United States of America in some matters like for example the creation of laws to regulate the intellectual property and the presence in foreign market of certain areas unforeseen in principle. In November 1999

China's admission was supported by America. This was the definite impulse for the entry of China to the organization.

B) Political Motivations:

At the beginning of the current century, Chinese government was completely aware of the fact that the significant growth in the economy of the country for the last two decades required greater liberalization. However, there were detractors of this liberalization. In regard to this, Chinese society was divided into two groups: the group who opposed the economic opening and the group who supported it.

On the one hand, the state-owned companies and the peasants are of special note among the ones who opposed the economic opening. However, due to the fact that the peasants were not organized enough at a national level since there were many of them; the main pressure groups supporting the protectionism were the Chinese state-owned companies.

On the other hand, among the advocates for the Chinese economic opening inside the country we can mention the consumers, the foreign companies and private businessmen. Traditionally, this social group had lacked the capacity to organize themselves and pressure force. However, the need to liberate the economy in the face of the rapid growth recorded by Chinese economy has caused that, in the past years, the advocates of liberalization took a main role.

It is widely known that when there are important disputes between social groups they tend to become more serious if radical reforms as regards the cause of the conflict are implemented. The economic opening of Chinese economy was one of these controversial reforms and the Chinese government considered that if the liberalization was achieved by entering the WTO, the dispute would be less serious. The Chinese government considered that undertaking a reciprocal liberal reform through the entering to the WTO instead of a unilateral one would be useful to show the detractors that the reform was something imposed from abroad and not a national government measure. In this way it was possible to reduce the political cost of the reform.”

Both the Chinese interest in signing the agreements as soon as possible and the efforts not to show the society the content of these agreements confirmed that the admission would imply considerable sacrifices and the existing feeling of fear that it would cause a social division. Although we have analyzed the aspects that have strongly encouraged China to sign the WTO adherence agreement, we cannot forget that there was an intense pressure exerted by the more developed countries (especially by those which were most interested in enlarging their commercial and financial networks towards the Asian country) to obtain the confirmation of the commercial liberalization that the adherence to the international body implied.

2.2. China's WTO adherence commitments and appraisal of their fulfillment

Although I do not want to discuss in depth the economic reform undertaken by China in 1978, I would like to mention that during the last two decades of the XX century, the country made important efforts to have a more opened and liberalized economy. Among the reforms undertaken in this sense, we can mention the limited intervention of the State in the price setting and the elimination in 1994 of the exchange duality. During the 90s, these measures were complemented with generous tariff and non-tariff discounts.

As it is mentioned in SOLER MATUTES (2003), in spite of the efforts made, at the beginning of the XXI century Chinese economy still reflected aspects which met WTO standards. Among these aspects we can mention:

a) The tariff pressure and the lack of transparency: Although there was a reduction in the average tariff, the tariff rates were still imposed on certain sensitive sectors (like cars and some alcoholic drinks) and were used by the Chinese government to try to protect the domestic industry.

b) The quantitative restrictions: Since 1992, China had been eliminating more than a thousand restrictions of this kind through internal negotiation processes. However, China still maintained many quotas both in industrial and agricultural products.

Besides, China granted direct subsidies to prices and to the export of agricultural products and as the economy was liberalized this severely distorted competence.

c) The control of the State as regards the foreign trade and the internal distribution: In spite of the economic opening of the last two decades, in 2001 China had important barriers which limited a greater exteriorization of the economy of the country. Among them it is worth mentioning the following ones:

- The granting of licenses without objective criteria and the existence of commercial state monopolies on sensitive products like cotton, cereals, oil and certain vegetable oils.

- The fact that many foreign companies were not able to sell their products directly to Chinese clients if they were not subject to control of the state first through the so called "trading companies". These foreign companies were not able establish commercial branches to import the products neither, although this practice is very common in many other countries.

- The existence of restrictions on the opening of business premises, on the provision of after-sales or finance services and on the foreign capital input into the wholesalers and retailers distribution was an important barrier to the internal distribution.

d) The lack of protection of intellectual and industrial property: Recently, and assiduously, we see news in the press echoing the economic reports which position the losses due to Chinese forgery and imitations by companies from developed countries as a 15-20% of their sales. In spite of this, the situation in regard to this situation has considerably been improved during the last decade since judges are educated for matters

of intellectual protection, since the police have intensified their actions in this sense and since a new Intellectual Property State Office has been created.

China's entry to the WTO will allow the country to overcome, to a significant extent, these barriers to the absolute freedom of trade. In order to materialize the mentioned entry, certain commitments had to be made by China and the other countries in the international body for the Asian country.

China agreed to provide a solution for the barriers to the free trade mentioned before after being admitted to the WTO. Actually, most of the commitments made by China were mentioned in the series of articles from the GATT. However, this list of commitments was expanded when the "Agreement on Trade-Related Aspects of Intellectual Property Rights" (TRIP) and the "Agreement on Trade Related Investment Measures" were signed at Uruguay Round. In this way China agreed to improve the intellectual property protection and to impose fewer restrictions on foreign investment, respectively. Taking all these facts into account, the commitments made by China to enter the WTO were:

- To apply the same conditions to all the goods entering China, with no restrictions depending on their origin, as it is established in article I of the GATT.

- To apply the same rights granted to the national products to all the foreign goods, as it is established in article II of the GATT. If this commitment is fulfilled, the foreign companies will be able to freely distribute their products in the Chinese internal market, without the control of the government through the state-owned companies.

- To progressively replace the quantitative quotas or restrictions with "ad valorem" tariffs which are more transparent protectionist measures (principle established in article XI of the GATT). At the same time, China agreed to progressively suppress all the quotas and subsidies on exports, especially those on the agricultural sector. In fact, this aspect was one of the most controversial ones in the negotiation, since on the one hand, there was pressure to eliminate the agricultural subsidies mentioned before and on the other hand, for China this was a great liberalizing effort and a comparative tort due to the high protection maintained by the agricultural markets of the European Union, Japan and South Korea.

- To protect industrial and intellectual property. In this sense, China agreed to comply with the TRIP agreement from the moment it entered the WTO.

Also, the application of the free market principles supported by the WTO in China implied the fact that this country would have to undertake an important legal reform (modifying foreign investment laws and the Patents and Trademarks Law) and to adopt measures to achieve judicial independence and legitimacy.

Besides, in relation to the commitments made by the other country- members of the WTO to China, it is worth remembering that most of these countries applied the Most

Favored Nation Clause on China, except in key sectors like textiles and apparel. Apart from the agreements mentioned before, the “Textiles Trade Agreement” was another one signed in the Uruguay Round. This agreement established a progressive elimination of the quotas imposed by most of the developed countries on the import of textile products. However, since China was not part of the GATT at the time this Round took place, it was not included in this agreement and therefore the other countries were free to pose obstacles to the import of Chinese textile products. Once China was part of the WTO, the United States of America, the European Union and other developed countries committed themselves to applying the principles of the “Textiles Trade Agreement” in China. In summary, after China’s admission, the country-members of the WTO would eliminate the quotas on the import of textiles, footwear, china, glass products and toys mainly.

Now that the commitments have been analyzed, let’s see the extent to which they were fulfilled based on the different areas where China committed itself to introduce the changes:

■ **Tariff and non-tariff barriers:** China has allowed the WTO members to have a better access to its markets thanks to the progressive reduction of the tariffs since the average was 16.4% in 2001 and was reduced in 2004 to 10.4% and to 9.4% in early 2005. Although almost all the reductions for industrial goods were completed on January 1st 2005, for some industrial products the reductions will be gradually applied until 2010. Besides, China signed the Agreement on Information Technology through which the country agrees to eliminate the tariffs on the products of this sector.

Besides, China eliminated all the non tariff measures of distortion in trade established in the Adhesion Protocol, including import quotes and requirements for the granting of licenses and bids. These barriers were eliminated before January 1st, 2004 as it was established in the WTO adhesion calendar.

■ **Textiles:** The quotes for the textiles were eliminated on December 31st, 2004 but there will be a safeguard mechanism effective until late 2008 which will allow the WTO members to adopt measures to stop the imports in case the market is altered due to Chinese exports of textiles.

■ **Agriculture and Livestock:** China has reduced the import duties for agricultural products on the dates agreed in the WTO adhesion calendar and the average tariff rate on agricultural goods was 31% in 1997 and 15.6 % in 2004. However, it is not clear if the commitment not to maintain and introduce any subsidy to the export of agricultural products. This is especially relevant for our study because China is an important trade power as regards agricultural products for many exporting countries in Latin America and the Caribbean.

■ **Services:** Although the liberalization process advanced more significantly in the telecommunications, banking and insurance sectors, the opening of the services sector of China has not been fully materialized since many countries still complain about the lack of transparency and predictability. In some sectors, the requirements imposed by Chinese regulatory authorities with regard to the operation and granting of licenses are still complex and difficult to fulfill. Moreover, China still limits the availability of the commercial rights though the imposition of requirements to be met by the companies, like for example minimum capital, import and export levels and previous experience.

Besides, China still has not fully complied with the commitments to eliminate the restrictions with regard to the national treatment and the access of foreign companies to the market.

■ **Subsidies:** China is delayed for the compliance of the transparency requirements according to the Agreement on Subsidies and Compensatory Rules (ASMC as per its initial in Spanish) as regards the annual notification of the subsidies programs to be presented before the WTO.

■ **Antidumping:** Since 1995 China has become the country with the highest number of *antidumping* claims in the world. However, it is also true that since China entered the WTO, the country has adjusted the legislation in this sense. The Ministry of Foreign Affairs and Cooperation established a series of rules to be applied on *antidumping* matters (research, disclosure, questionnaires, etc). Anyway and probably due to the lack of confidence in the fact that China would undertake the *antidumping* measures, the WTO members stated in China's WTO entry agreement that they would be authorized to apply the "methodology of an economy which is not ruled by the rules of the market" in the *antidumping* provisions against China until late 2016. With the entry to the WTO, China made a commitment to eliminate every dumping practice, like the difference in the treatment of the goods produced to be sold in China in comparison with the ones produced for export.

■ **Intellectual Property Rights:** China has made many efforts to respect the intellectual property rights according to what has been established in the "Agreement on Trade-Related Aspects of Intellectual Property Rights" (TRIP). Among these efforts it is worth mentioning the modification of patents, trademarks and copyright laws in order to conform to the TRIPS and the creation of an office to strengthen the inter-institutional cooperation in the intellectual rights protection activities. But, in spite of the attempts to improve in this sense, there are countries like for example the United States of America, which are not fully satisfied with the Chinese measures oriented to guarantee an effective protection. This is mainly due to the fact that American trade is still victim of Chinese forgery and piracy. The claim of this country makes sense since the criminal law applied by Chinese authorities for the infringements as regards intellectual property rights do not have deterring effects yet because China has only established the criminal procedures for a few offenders.

■ **Trade-related investments:** China signed the Agreement Trade Related Investment Measures which implied a commitment to eliminate the barriers to trade related investments. However, there are several sectors which are still affected by investment limitations like the media and the automotive sector. Also, there is a series of regulations which prohibit the transference of technology. However, it is believed that China still encourages this practice.

■ **Commercial Rights:** China made the commitment to progressively liberalize the scope of the commercial rights so that in a three-years term as of China's entry to the WTO (December 2004), all the companies in China would be granted the right to import and export goods in all the Chinese customs territory except for some goods specified in the Protocol which are subject to limitations. Nowadays, we can confirm that China has made considerable improvements in the liberalization of its commercial rights and distribution services. The fact that the Ministry of Trade has approved standards about

the record procedures so that foreign operators can directly obtain their commercial rights proves what has been mentioned before.

■ **Value Added Tax:** In relation to this aspect there have been claims about the discriminatory imposition of the value added tax which infringes the obligations regarding the national treatment.

As a summary, we can conclude that since the entry to the WTO China:

- Reduces the import duties for more than 5.000 products.
- Eliminated the quotas and import licenses of some products.
- Has opened more sectors to foreign investors. China has gradually relaxed the legislation on property and the geographical restrictions on foreign investment in banks, values, telecommunications, professional services, etc.
- Has handled the contentious-commercial matters according to the WTO standards.
- The Chinese authorities have agreed to eliminate the agricultural subsidies and the agricultural companies will be able to import to China without the need to present their products before state-owned authorities.

We can value the application of China's commitments to enter the WTO stating that there were tariff reductions which, in some cases, fulfilled what was agreed. As regards the non tariff barriers in China, we can say that, at the time of the adhesion, they were much more relevant than the tariff ones. China's commitment implied the reduction of these non-tariff barriers to an equivalent tariff to 2.4% in 2006 and it seems that this is going to happen in spite of the fact that certain non-tariff barriers are still applied in agriculture as sanitary and phytosanitary measures. Besides, although there has been an important opening, there are still barriers which hinder the investment of foreign companies in certain sectors like agricultural biotechnology. Also, we can see that any company with foreign investments can only distribute the products manufactured in China and provide after-sales services only for these products. Therefore, we can state that, in spite of the period of time passed since China joined the WTO is not enough to evaluate the behavior as regards its commitments, there has been a considerable improvement in this regard. The fact that until the present moment, according to the WTO differences solutions system it has not been determined if China has violated its commitments proves what has been mentioned before. In contrast, the country is taking advantage of this fact to defend against commercial measures imposed against its products. From early 2002 until mid 2005, China has frequently taken part in this mechanism, four times as a defendant and six times as a plaintiff.

Finally, it is worth mentioning that China will continue improving in the fulfillment of its WTO adhesion commitments and from a national and short term perspective it is believed that this fulfillment will be probably translated into higher prices of Chinese products which at the present moment are protected by trade restrictions. This can be considered as a positive evolution for the international market since it will reduce the price gap between Chinese products and those from other countries.

2.3 Consequences of China's adhesion to the WTO and more Chinese presence in European and American countries.

2.3.1. Impact of the adhesion to the WTO on Chinese economy.

Most of the studies carried out conclude that China's entry to the WTO has had a general positive impact on the economy of the country which is represented by more commercial relationships at an international level causing a decrease in internal prices and an increase in the levels of income. However, the consequences of the increased opening are different for each sector. Those more export-oriented ones have been the most favored (like the textile and apparel sectors) and the most harmed ones have been the agricultural and those more intensive as regards capital (like the machinery and the automotive ones) which traditionally had been protected from foreign competence.

As the classic theory states, thanks to the liberalization of the economy and the enhancement of commercial relationships, each country specializes in the production of goods and services in a more efficient way. All the studies agree in that in the case of China, the intensive light manufacturing industries (like the textile, the apparel, the footwear and others) are the ones which will be most favoured with the commercial opening since they are the most competitive ones. The positive effect of China's entry to the WTO on these sectors is due to the fact that they benefited from the import of machinery and components at a lower price and were able to place their products in foreign markets (as a consequence of China's inclusion in the "Textiles Trade Agreement") which were inaccessible until then.

Opposite to what has been said about Chinese textile and apparel sectors, the entry to the WTO harmed certain sectors, specifically the agricultural sector and the capital intensive ones. The strong economic growth recorded by China for the last two decades had caused that the agriculture was less important in the total national production and after 2001; there will be an important increase in the number of exports of agricultural products. Besides, the sectors intensive in capital will be harmed by the opening, basically because China, like other developing countries, has no comparative advantage in industries rich in technology. In both cases, it is confirmed that the economic sectors which were harmed were those which traditionally had been protected and which, once the tariff discount takes place, experience a significant increase in the exports of substitute products at a lower price. Anyway, and in spite of the fact that the impact of the imports is higher, it is important to remember that as a result of the greater liberalization possibly there will be a future increase of the exports of products intensive in capital. Moreover, in this regard "the World Bank confirmed how China will soon move from a production model based on manufactures intensive in labor towards the manufacturing of machinery and intermediate technology" (SOLER MATUTES 2003).

Although it is usually believed that China's entry to the WTO has caused an extraordinary increase in the exports of this country, table 2 confirms that in almost all the sectors the imports experience more substantial increases than the exports after the

entry to the international body. This can be observed especially in those sectors which had been affected by high prohibitive tariffs, like the tobacco and alcoholic drinks or the automobiles. In these sectors the estimated variation on the imports with the entry to the WTO is higher than the initial scenario without the WTO.

**TABLA 2
VARIACIÓN EN EL COMERCIO EXTERIOR CHINO EN 1995-2005
CON Y SIN EL INGRESO EN LA OMC**

SECTOR	VARIACIÓN ESTIMADA DE LAS IMPORTACIONES		VARIACIÓN ESTIMADA DE LAS EXPORTACIONES	
	SIN OMC	CON OMC	SIN OMC	CON OMC
Cereales	+261,1%	+249,0%	-22,5%	-10,5%
Carne y ganadería	+395,4%	+461,2%	-83,1%	-83,4%
Productos lácteos	+295,7%	+310,9%	-53,3%	-50,6%
Tabaco y bebidas	+132,4%	+4975,4%	-40,6%	-28,7%
Industria extractiva	+656,4%	+643,1%	-89,5%	-86,8%
Textil	+63,5%	+162,9%	+37,3%	+90,1%
Prendas de Vestir	+48,2%	+626,5%	+42,8%	+330,1%
Madera y papel	+72,3%	+114,2%	+56,7%	+91,8%
Petroquímica	+56,9%	+86,5%	+48,2%	+75,8%
Metales	+68,8%	+104,3%	+104,6%	+161,4%
Automóviles	+26,1%	+934,5%	+375,8%	+810,4%

FUENTE: SOLER MATUTES(2003) A PARTIR IANCHOVICHINA EL (2000)

2.3.2. Impact of China's adhesion to the WTO on the other countries.

Now that we have already considered the effect of China's adhesion to the WTO on its national economy, it is important to also evaluate the impact of this adhesion on the other countries. When analyzing the changes that China's entry to international organization will cause on the other countries, it is important to differentiate the developed countries from the developing ones.

A) DEVELOPED COUNTRIES

At first, it was considered that the impact on the developed countries would be clearly positive since they would benefit from a better access to the Chinese market and besides, they would be able to import manufactured products at a lower price. However, this effect was limited in some way since the trade volume of countries like the United States and the European Union with China is still reduced (in spite of the substantial increase experienced during the last years) compared to the one they have with the other developed countries and due to the fact that these developed countries already offered China the same access conditions as it did for the other countries, except certain key

sectors like the textile. Therefore, China's adhesion was more important for the developed countries in sectors like the textile, the apparel, toys and other light industries since the permission to freely import these products at a lower price damaged the industries of these countries in a significant way because the national products are much less competitive.

B) DEVELOPING COUNTRIES

In many developing countries there was certain unwillingness as regards China's entry to the WTO. This reaction was already observed in China's WTO Adhesion Agreement and was maintained generating diplomatic movement of any kind. Generally, the countries which posed more obstacles to the opening of their markets to the Chinese products were those which had achieved a higher level of development and tried, in this way, to protect their respective national industries in sectors like footwear, textiles, apparel, building materials and various industrial products. Among these countries we can mention Poland, Turkey, Slovakia, Argentina and Mexico.

We can classify the developing countries into "winners" and "losers" as regards China's entry to the international body. Among the countries which were most benefited from this adhesion stand out Korea, Singapore and Taiwan, countries which are capable of providing intermediate and intensive goods and goods with certain technological component. These countries were benefited from the increased liberalization on trade and from the opening of direct foreign investment in the Chinese economy.

The developing countries which were most damaged BY China's adhesion to the WTO were those which maintained economic structures similar to the ones in China and which become direct competitors in markets like the United States, Japan or Europe. China's entry to the WTO represents a threat for these countries due to the fact that Chinese products are extremely competitive and can they can partially move them away from the markets. The countries which are in this situation are mainly those which export textiles and apparel products. Some examples are Morocco, Tunisia and Turkey on the one hand, which are afraid of being moved away from the European markets and on the other hand Mexico and the Caribbean countries witch in this case would be moved away from the United States market.

All in all, China's better access to other markets after the entry to the WTO can negatively affect the growth perspectives on the exports of some developing countries. The most harmed ones will be China's direct competitors with no access to other markets. The key of China's increased influence in this economic liberalization on the rest of the countries is how important is the textile sector in these countries. This is why those economies where the textile sector is very important are more worried about China's commercial opening. SOLER MATUTES (2003) makes reference to this fact. "Therefore, the concern of certain countries is logical since the textile industry has historically been extremely important for the economic development processes, from the XVIII England to nowadays Tunisia and Morocco, to XIX Spain, Japan at the beginning of the XX century or South Korea and Taiwan during the 50s and the 60s".

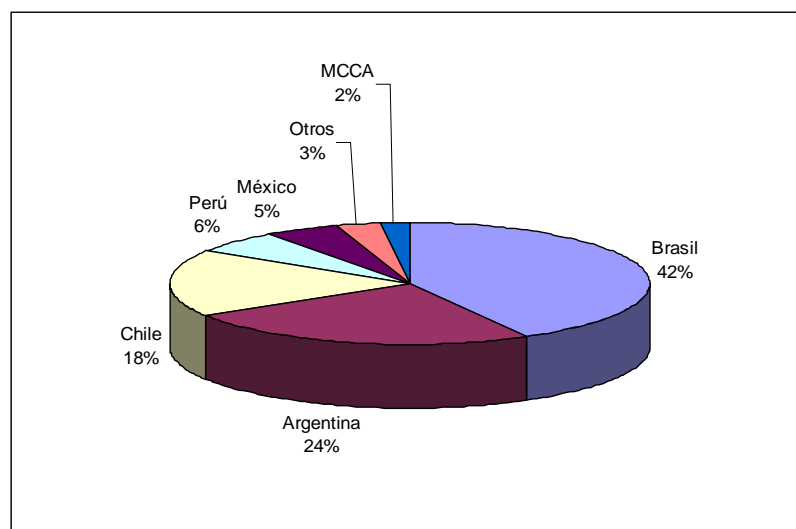
2.3.3. Commercial impact of China's adhesion to the WTO on Latin America and the Caribbean.

After China signs the Marrakesh Act, the bilateral negotiations of the Asian countries with the Latin American and the Caribbean countries start, so that these countries support the adhesion to the WTO. In spite of the fact that the economies of Central America and the Caribbean were aware of the impact that China's increased commercial opening would have on their textile and footwear sectors, only Mexico and Argentina made the negotiation difficult, posing obstacles to that entry. At the opposite extreme we find Chile, which was the first country to subscribe an adhesion agreement with China. Finally, the last Latin American countries to subscribe an agreement with China were Bolivia, Venezuela, Costa Rica, Ecuador, Guatemala and Mexico. The negotiations with Mexico, which was the last country to conclude them, were especially complex because the Mexican authorities were afraid that the adhesion would favour China to attract the foreign investments they received up to that moment. Finally, it was decided that an agreement with China would be appropriate and that Mexico could not be completely isolated within the WTO framework in spite of the contrary opinions of many companies.

For Latin America, China's entry to the WTO implied an increase in trade with this Asian country as a result of an improvement in the access to this market. However, we should not overrate the effects of this entry since the growth in Chinese economy, together with the industrial reforms, has had a powerful dragging effect on the mining and forestry sectors because it generates a higher demand of supplies coming from these sectors. And if we take into account that this effect has been more important than the one produced by the reduction of tariff barriers as a consequence of the entry to the WTO. The products which were more benefited from the export boom introduced by the growth in Chinese economy are: iron, copper minerals, aluminum, liquid natural gas and energetic resources in general.

In Figure 2, we can see the countries that have experienced a bigger increase in their exports to China through the entry of this country to the WTO.

GRÁFICO 2
AMÉRICA LATINA: DISTRIBUCIÓN DE LAS EXPORTACIONES HACIA CHINA, 2003
(Porcentajes en el total)



SOURCE: CEPAL. Perspective of the international insertion of Latin America and the Caribbean. 2002-2003

Brazil is the country which has experienced a greater expansion on the exports to China, performing a trade that goes from primary products like the soy, chickens and iron mineral, to industrial manufacturings like automobiles and small cabotage plains. In the case of Brazil, there are concrete signs of a qualitative improvement as regards its economic relationship with China after the entry to the WTO and this is the country that has shown more signs to intensify its economic relationships with China.¹

Argentina is second in importance since it records a spectacular growth on the exports to China. These exports increased 131% during the first eight months of the year 2003 in relation to the same period of the previous year. Finally, we want to mention that in Chile and Peru there was also an impact of the growth of Chinese economy since these countries have significantly increased their exports to China during the past years.

However, in spite of the growth on the export of certain countries associated to China's entry to the WTO, there is also a negative impact on the Latin American economies since the competence with Chinese products has been intensified. Moreover, it is observed that the fact that the Chinese products are more competitive, has caused a progressive substitution of the production of the textiles, apparel, footwear, plastics and manufacturing local industry. This is due to the fact that the exports of many South American countries are directed to the United States and this country is also the main

¹ In this sense, it is important to highlight the association between Vale do Rio Doce and Baogang Metallurgic in November 2001 and the joint programme between the Brazilian Aeronautics Company (EMBRAER) and the Chinese Aviation C₄

market for China. As regards this aspect, the figures are significant since China's entry to the WTO and the consequent elimination of the restrictive quotas increased three percentage points the participation of Chinese apparel products in the United States market while the participation in "all the other markets" (Mexico, Central America and the Caribbean Basin countries) was reduced four percentage points. Besides, the competence is extended to other sectors apart from the textile one. As a proof, China competes against Mexico and Brazil in the machinery and equipment market, especially in the United States. In this sense, if a country has been negatively affected, in a significant way, after China's entry to the WTO, that country is Mexico. This was due to fact that the improvement of the access conditions of the Chinese products to the United States market reduced Mexico's preferential advantages on account of the (North American Free Trade Agreement (NAFTA)).

2.4 Consequences of a higher direct foreign investment in China for Latin America.

2.4.1 Implications of China's entry to the WTO for foreign investment in the country.

Foreign investment in China has allowed the country to be present in the global economy since this investment made it possible to finance the Chinese growth, to facilitate the jobs creation and to promote the exports (ROSEN 1999). As a result of all this, we can affirm the direct investment has become the main source of foreign capitals in China with a key role both in its external account and in the determination of the type of exchange rate.

During the 90s, China undertook a strategy to attract foreign investment. Before that time, as it is mentioned in CORREA Y GONZALEZ (2005), the foreign capital attracted by the Asian country was not higher than some million dollars. However, the current situation is very different and China records an accumulation of about 6000.000 million dollars with an average of 50.000 million dollars for the past ten years. These figures clearly show that China has become one of the main receptors of foreign investment in the world.

The huge expansion of foreign investment in China during the 90s was due, mainly, to the increased legal clarity, to an improvement in the government guarantees to foreign property, to the partial convertibility of the local currency and to the different incentives. One clear example of the influence of these factors on foreign investment is the fact that the foreign capital flows in China were four times higher between 1992 and 1998. But, apart from the factors mentioned before, ROSEN (1999) attributes also the outstanding increase in investment to the fear of many investors of the appearance of restrictive practices by the competence. Many foreign businessmen were afraid that the Chinese market was fully occupied by the already installed companies and, as a result, they believed that it was necessary to get into China as soon as possible. This fear was

not confirmed since the number of distributors has increased in China during the past years offering opportunities to new businessmen. However, the risk already exists and is one of the main threats to the effective application of the access conditions negotiated for the entry of China to the WTO.

Although during the 90s there were elements which contributed to the increase of foreign investment in China, there were still obstacles and practices which were contrary to the basic principles of the WTO. Therefore, before China's adhesion to the WTO, this country had a combination of incentives and restrictions on the foreign capital and both elements are contrary to the WTO general standards, established after the Uruguay Round.

In the first place, we are going to make reference to the existing restrictions. Among these restrictions we can highlight the requirements imposed on foreign capital companies by the Chinese authorities for them to export part of their production (or to use Chinese components and supplies in certain proportion) and the existence of barriers to the provision of services of the foreign companies. The consequences of these restrictions are mentioned in SOLER MATUTES (2003): "These restrictions affect the foreign rivalry in certain sectors (prohibited or limited), the geographical scenario of certain activities (especially banks and insurance) or just the prohibition to provide certain services (telecommunications)".

Besides, it is worth mentioning the many fiscal incentives that the Chinese government has offered to the foreign capital since the beginning of the reform. These fiscal incentives have adopted the form of tariffs reductions, V.A.T waivers and discounts on the company taxes. These measures which have significantly benefited the foreign investors imply covert aids and subsidies which do not comply with the principles of the WTO.

The formal entry of China to the WTO implied a progressive elimination of the restrictions and incentives imposed on foreign capital. This implied the derogation of certain legal rules like the "Provisional Regulations to Manage the Direction of Foreign Investment" which was particularly restrictive as regards the foreign presence in certain sectors. Finally, China's entry to the international body also implied the acceptance of a series of commitments which had been already made by other countries at the end of the Uruguay Round and included in the GATS Agreements. These commitments were negotiated in the frame of the bilateral agreements between China and the WTO members, especially in the Agreement with the United States in November 1999 and in the one signed with the European Union in May 2000.

Apart from the elimination of the restrictions and incentives contrary to the WTO principles, China undertook a series of measures which caused an important increase in the foreign capital flows of the country. In this regard we can highlight China's capacity to match its perspectives with the ones of the foreign investors. This required a process of institutional improvement and more credibility. What has determined the investment flows towards China is that the fact that this country offers a series of elements like natural resources, raw materials, sources of supply, political and social stability, structure

and size of the market, growth perspective in the market, institutional, political, legal and cultural environment and finally, politics and legislation of the government. All these were factors that turned China into a very interesting market for many foreign investors since these agents found in the Asian country plenty of labor, improved infrastructure and preferential policies. In this way China has been able to capture, during 25 years of external presence and attraction policies, about 24.000 million dollars annually which surpasses other countries like Mexico, for example, which has obtained 5.000 million dollars annually.

2.4.1 Implications of China's entry to the WTO for foreign investment in the country. The Latin American case.

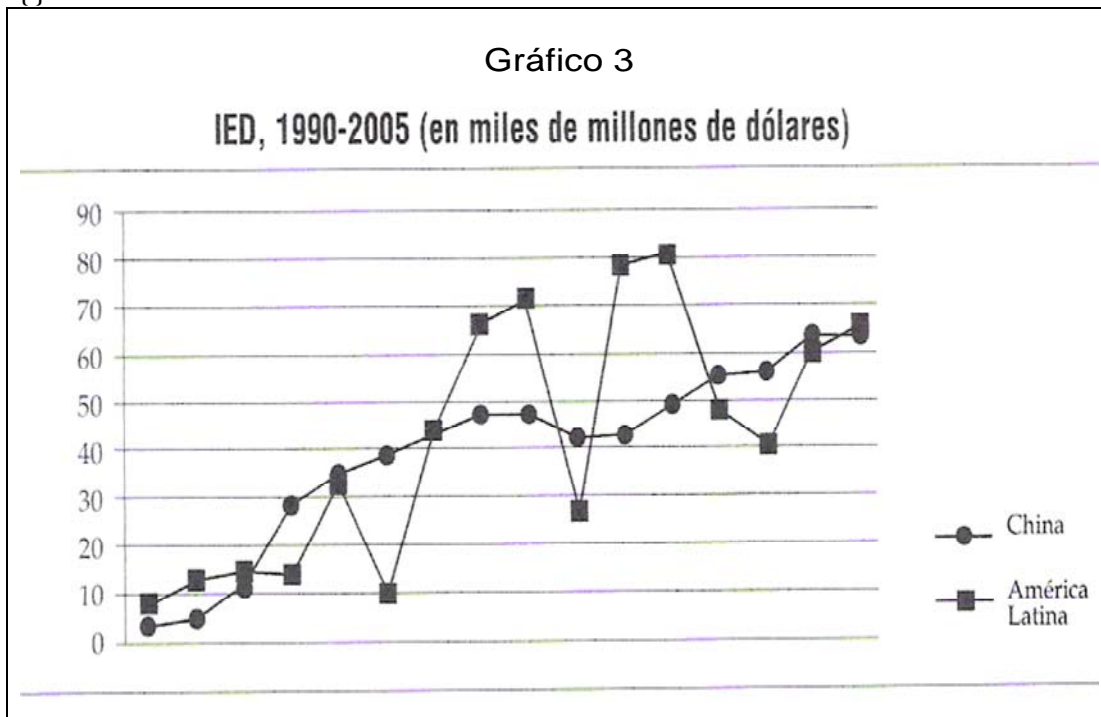
In the previous section we mentioned that, after the entry to the WTO, China has become one of the most important countries receiving foreign direct investment (FDI) in the world. There are many authors who state that what moved countries, regions or subregions way from the international markets as FDI receptors was the development model of the Asian country. They affirm that the fact that China has better understood the logics of globalization what made it possible to capture the FDI and that other countries, like the ones in Latin America, were not able to understand it.

Therefore, among the countries which are receptors of capital, as in trade, there is a similar phenomenon of competence with China, which is especially worrying if we take into account the obvious links between trade and investment as well as the trend previously mentioned towards the adoption of investment decisions about the regional or even continental criteria.

As regards the foreign direct investment in Latin America and the Caribbean we can highlight that Brazil and Mexico are the most important receptors of FDI and, together with Chile and Argentina, capture the 66% of the total flow directed to the region. In these countries the foreign investment is usually allocated to the natural resources and manufacturing which are more attractive than the services sector. In Argentina, Brazil and Mexico, the manufacture is the central receptor. In Central America and the Caribbean, the main focus of attraction has been the renewed privatized public companies. Finally, in the case of the Andean Community, the mining projects are the most attracting ones.

Figure 3 shows that if we compare the evolution of the FDI for the period 1990-2005, in China and Latin America it is confirmed that China's total attraction is similar to that of the group of Latin America. However, in that evolution of the FDI, we can see that the Latin American region shows (as opposed to the Asian country) great variations in the period which are basically due to the privatization of government owned companies and the purchase of banks and financial entities.

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SOURCE: CORREA LÓPEZ AND GONZÁLEZ GARCÍA based on UNCTAD.

However, nowadays everything indicates that there is a moving of the foreign direct investment for Latin America towards China since this country offers conditions (which we mentioned before) that any other country in the world can present.

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