Chapter I

INTRODUCTION

I Framework of the Study

China’s entry into the World Trade Organization (WTO) in 2001 is a defining moment not only for China but also for the rest of the world as it facilitated the formal integration of the Chinese economy with the world economy. Being fully aware of the advantages that would accrue from a multilateral trading system governed under the WTO, China had officially applied for the GATT membership in 1986. Fifteen years of intense negotiations with developed countries like the United States (US) and the EU (European Union) and other developing countries eventually resulted in its entry into the WTO. Since its entry, China has actively participated in the world economy and in various WTO Ministerial meetings like Cancun, Hong Kong and Geneva in 2003, 2005 and 2009 and has raised several concerns of the developing countries. It has also been an important member of developing country coalitions such as G-20\(^1\) to carry forward the development issues by trying to influence the WTO negotiations. More importantly, the critical role the Chinese economy played recently in minimizing the adverse impact of the 2008 American economic crisis on the world economy is also well known.

Though the formal integration occurred in 2001, an informal integration between the Chinese economy and the global economy began in the year 1978 heralding a new phase in the evolution of modern China. As part of this process, it initiated a set of economic reforms coupled with open door policy to modernize its economy. Gradual approach to reforms, optimal utilization of foreign direct investment (FDI), emphasis on export-led growth, and adapting to new challenges especially after opening up the economy, helped China to post consistently high economic growth and expand its foreign trade. As a result, by the late 1980s and 1990s China had emerged as one of the major economic powers in the world. Having a miniscule share of global trade at

\(^1\) The G-20 is a group of developing countries established on 20 August 2003, in the final stages of the preparations for the V Ministerial Conference of the WTO, held in Cancun, from 10 to 14 September 2003.
the time of reform and opening up in 1978, it has been able to garner more than 7.88 percent (WTO Statistics Database, WTO March 2010)\(^2\) share of world trade today.

China's entry into the WTO has provided enormous opportunities and challenges. It has gone through an eventful period to join the WTO. Series of negotiations based on political, economic, and trade objectives have been the mainstay of such activities. The task has never been easy throughout this period. China had to succumb to much pressure from the developed countries to agree to difficult terms of agreement as the US and the EU wanted China to join under 'developed country' status. China had argued it is a 'developing country' and still passing through different stages of development, and hence it should enter the WTO under 'developing country' status, so as to fulfill fewer commitments. However finally, it joined the WTO with commitments, which were more stringent than the other developing countries.

Some of these adjustments were in the areas of trade in goods, market access of trade in services, implementation of trade related measures and major institutional commitments such as creation of new ministries and legal system. Accession commitments relating to trade in services included implementation of the General Agreement on Trade in Services (GATS); liberalization of location restrictions; foreign ownership share; and business scope and provision of broadest coverage to developing members. Foreign investment commitments included eliminating performance requirements on foreign companies. Finally, institutional commitments involved trade and investment facilitation, issue of transparency and consistent trade and investment related laws, rules, and policies.

Various scholars have analyzed that China's economy has benefited from the global trading regime particularly in manufacturing and services. These are the two dynamic sectors of the Chinese economy which have expanded during the current phase of globalization. Sub-sectors like textiles and telecommunications from the two major sectors of the economy, namely manufacturing and services have been selected for a detailed study. The study explores the following issues: whether China has benefited from the global trading regime by joining the WTO; how China has progressed through its accession process; the roles that textiles and telecommunications have

played in integrating China’s economy with the world; the role that FDI has played in creating a robust manufacturing base for China and helped it to promote its exports all over the world.

The study is concerned with two central questions: the first, a theoretical one, relates to China joining the WTO; and the second, an empirical one, deals with China’s integration with the world economy, positioning its two key sectors such as textiles and telecommunications in world trade. The question i.e., how China’s trade policy has gone through various policy changes to facilitate its integration with global market has also been discussed.

In this context, the issues that China had to grapple with immediately after its accession to the WTO are very important. This study aims to analyze some of these issues. Most of the studies in the existing literature have dealt with China before joining the WTO and this study in particular focuses on China after joining the WTO. Theories of interdependence and sectoral approach have been employed as the framework to undertake the study.

II The Context

China’s integration with the world economy has undergone a paradigm shift with its entry into the WTO. From a closed economy till late seventies, it made a conscious and determined effort to reach out to the outside world through economic reforms and open door policy. It began to realize that establishing links with major industrial powers and participating in world economy were necessary requirements for economic progress. Its experience with developed countries in relation to protectionist measures and antidumping issues imposed on its economy made her aware about the need to integrate with the world economy. The provision of dispute settlement mechanism (DSM) is critical in the governance of world trade. Imposition of non-tariff barriers plays a debilitating role on China’s exports whose intensity can be reduced once it becomes a member. It also realized that integration with the global economy would allow her having an important say in world affairs. It would be able to play a much more participatory role in world affairs. From playing a peripheral role to becoming a major player in world economy required adherence to a global regime, whose conditionalities were not easy to accept. China came under considerable
pressure from the international community to adhere to a global trading regime not only in the economic sphere but also in the political sphere. Adhering to an internationally rule-based regulated regime was intimately related not only to the changes in the international context but also to China’s own domestic situation and demands. Complying with such a regime necessitated number of institutional and structural changes. Thus, the process to join the WTO took considerable time.

China had to introduce reforms in its domestic institutions, policies, and decision-making mechanisms. Establishment of a well-defined legal architecture was the hallmark of the series of commitments it undertook. While China’s increasing involvement in the world economy substantially enhanced its stature and image globally, it bound China to obey rules and regulations of the international economic community. While aligning to the requirements of this global trading regime, the Chinese leadership had to cope up with the pressures of an international order in transition. In its attempt to establish global competitiveness of its economy by joining the WTO, China remained wary of the WTO’s impact on social, cultural and political milieu of China. It remained unsure about the extent of integration it should have with the world economy, especially in the field of telecommunications as protection of national security and sovereignty became the major constraint in integrating its telecom sector with the world economy.

In this context, its entry into the WTO provided a new dimension to world trade. As part of its terms of agreement, its economy became open to the outside world. Foreign players are keen to make an entry as they see huge prospects for them. World economy in the formal absence of China felt to experience a limited growth as China was consistently posing higher economic growth remaining outside the WTO. World economy, therefore, was negotiating since 1986 to bring China within its ambit. It knew a growing economy like China has a lot to offer for many developed as well as developing countries to make global economy growth-driven, balanced, and stable. Complementarily, the size, population, and purchasing power of China were proving to be the best bet for the world economy to maximize its trade gains. Similarly, China also enjoyed market access to its various trading partners, thus availing huge opportunities to expand its economic and business activities with the outside world.
III Importance of China’s Entry into the WTO

China’s ambition to emerge as a strong economy in the world was adequately realized by the world economy from the time it launched its reform programme. It was fully aware of the opportunities available in world trade and was keen to be a part of it. Multilateral trading regime under a rule-based system provided China trust and confidence to integrate with the world economy. Similarly world economy driven by industrialized countries like the US and the EU saw China a huge country with promising trade and economic growth. Its size, purchasing power and modernization provided impetus for the world economy to view to China as a global opportunity.

III.1 China’s Importance for the World Economy

China’s transformation into an economic powerhouse in the 1990s was crucial to its entry into the WTO. Its commitment to economic reform and gradual opening up helped her to project an impressive growth rate averaging around 8 percent compared to other developing countries like India. The expansion of China’s role in world trade also grew from a world share of less than 1 percent in 1979 to 1.7 percent in 1990 and 3.8 percent in 2000 before its accession (WTO International Trade Statistics: 1999, 2000, 2001, 2002). Its exports and imports have also grown rapidly since 1979 at an average rate of 15 percent. In 1995, China was the sixth largest exporter of goods in the world and seventh largest importer accounting for 4 percent of world merchandise exports and 3.4 percent of world merchandise imports (Annual Report 1996 WTO Vol. II: 4). It continued to remain as the sixth largest exporter in 2001 and improved its position from seventh to sixth importer of the world in 2001 (WTO International Trade Statistics: 2002). This high growth coupled with a favourable investment climate and flexible labour laws have strongly driven China as a destination for the world economy to grow. With this growth in mind, developed as well as developing countries concluded that China’s absence in the WTO would affect the pace of world economic growth. Industrialized countries were particularly keen to see that China joined the WTO so that they would benefit from its growth.

Second, inflows of FDI, imports of low cost raw material and cheap labour allowed China to emerge as a global destination for production. This activity propelled the export prospects of China. Many of the advanced countries including the US
benefitted enormously from this shift of global production to China, since imports of these goods helped to bring down prices in these countries. This shift in production to China at one level was welcomed by Southeast Asian nations. At another level it has also raised concerns for them because these countries began to feel that China’s exports could crowd out their export opportunities (Athukorala 2010: 406) as there are apparent similarities in the export composition of these countries with that of China. This is an important reason why the ASEAN countries became interested to sign the FTA with China so that both benefit from this regiona trade agreement. China sees this as a great opportunity to remain engaged as a constructive participant in the new round of global trade liberalization. This argument was further supplemented when many countries argued that the WTO so far has not been able to provide trade benefits that it had promised to aspiring developing countries at the time of their joining, that is why many developing and transitional economies had started scouting for regional trade partners to form effective regional agreements like FTAs. Chinese leadership recognized the economic advantages of such agreements and has even gone so far as to suggest that the signing of FTA with the Association of Southeast Asian Nations (ASEAN) in January 2010 was in the benefit of world economy to grow.

Third, the issue of transparency in China has always been a source of concern for the world community since its opening up. Its gradual rise in international politics became an apprehension for the world economy that it will not conduct itself in a responsible manner. However, China insists that entry into the WTO reiterates its commitments to abide by the multilateral rules and regulation, which the world economy follows. It is willing to play the trade game by international rules and it will help persuade the world, that its rise is an opportunity rather than a danger (Yong 2009: Personal Interview).

Fourth, it is argued that deeper integration and the complementary domestic economic liberalization will provide more opportunities for the Chinese people to engage in long gestation employment and some high-end manufacturing jobs (Broadman 2007:33) since China was developing as a manufacturing hub of the world. China will be able to meet the expectations of its huge population by raising their income and providing better living standards (Zhu 2009: Personal Interview).
Fifth, signing agreements with the WTO members regarding trade liberalization will further deepen integration with the WTO. Had it not joined the WTO, the country would have been left out of the mainstream of the global economy. Without liberalization and integration, China will not fully share the benefits of the free capital movements of multinational corporations (Yong 2009: Personal Interview).

Sixth, in a globally competitive world, China needs to prepare its industries to face tough competition. Protectionism for the domestic industry may not fetch the desired results anticipated from the current global regime. High tariff and non-tariff barriers only benefit specific industries for a specific period but impose high indirect costs on the economy as a whole. These costs are reducing the country's ability to keep pace with global competition. The country's industrial monopolies and recently reduced high telecom rates are often cited as evidence of these high costs. Entry to the WTO, therefore, is a favourable step for China to integrate with the world economy (Lei 2009: Personal Interview).

Seventh, only after the WTO entry can China effectively protest against the protectionist measures and unfair dumping charges, frequently imposed on the Chinese exports by its trading partners. Some experts, who argue for a delay in WTO membership, say that the country can gain the benefits of WTO through bilateral most favoured nation (MFN) status. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) team counters that saying only the WTO multilateral trade dispute mechanism can help China fight discriminatory treatment, and only membership can qualify the country for the benefits of the world trading system (Yong 2009: Personal Interview).

Eighth, “China was always eager to join the WTO because in the past it has suffered from serious harassment in trade relations with other countries; at least with the entry, it expects to get fair treatment and fewer trade disputes. While preparing for accession, it can continue with its domestic reforms which are also necessary for internal economic development as well as for external integration with the world economy,” remarks Prof. Yin Xiangshuo (Xiangshuo 2009: Personal Interview).
III.2 World Economy's Importance for China

First, among the industrialized countries it was apparent from the beginning that the US has large economic interest in China's domestic economy. It expected China to undertake deeper integration with the world economy so as to allow foreign countries to take initial advantage of its size, population and their purchasing power. As the US was globally competitive in services sectors like telecommunications, banking and insurance, it wanted to push these sectors to Chinese society and reap trade gains initially. It served the economic interests well for the US and that is why the US wanted China to soon undertake the process of liberalization. By the 1990s China had already emerged as the most rapidly growing foreign market for the US goods and services. But it was still in the better interest of the US that once China joined the WTO and fulfilled its commitments, the access of the US firms to this market would be increased and the prospect for the bilateral trade relations would also be improved.

In addition, the US was also keen to negotiate for increased access to its agricultural products and automobiles as China lacked competence in developing these products and this business activity would have widened its product market in China. Gradually China would have been a destination to spur the rapid growth of the US trade. In a span of eight years the US trade with China reached US $ 116 billion in 2000 from US $ 33 billion in 1992 (US Department of Commerce).

Second, many Chinese trade experts as well as policymakers believe that the WTO provides a wide scope to integrate its economy with the world economy. Its rules-based, transparent, predictable, and special provision for dispute settlement are uniquely placed to generate trust and confidence in countries who are interested to join it. The expectation hovers around the fact that more predictable access to foreign markets, which the WTO membership can bring, will result in strengthening the external sector of the country. Trade will prosper, member country will witness higher exports, country's GDP will be increased and many impending social problems such as poverty reduction, livelihood, rural employment, and food security will be tackled.

Third, it is sometimes argued that industrialized countries were keen to see China transforming from a planned economy towards a market-oriented one as this change

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will provide more flexibility and confidence to the world economy to deal with China. State intervention and rigidity of the system will gradually be reduced.

Fourth, China’s entry will ensure transparency in the implementation of intellectual property rights as the Trade Related Intellectual Property Rights (TRIPs) has come under the ambit of the WTO. This has been a long-standing demand of industrialized countries that China seriously violates IPRs while indulging in scientific and technological innovation to spur its foreign trade and domestic growth. WTO member countries are keen to see this system implemented in China.

Lastly, China’s entry into the WTO is expected to strengthen the trade and investment ties between China and Taiwan. Political tension between the two countries since 1949 will be reduced once both start operating at the multilateral level. Since economic reforms and open door policies, both the countries have tried to set aside their political differences to cooperate in a more constructive manner. China has taken initiatives in trying to establish three major links such as direct trade, postal and transportation facilities to accelerate their bilateral trade and other forms of cooperation between them (Tung 2004: 1). As a result, bilateral trade has witnessed a significant rise. Since 1993, China has become Taiwan’s third largest trading partner, after the US and Japan. It has also become Taiwan’s second largest export market after the US. In 2002, China became Taiwan’s largest export market for the first time (Ibid: 2). This became possible because in the 1990s China became a major destination for production. Many Taiwanese firms had joined this production process and took advantage of this low-cost production network. According to the official statistics more than 50,000 Taiwanese firms have invested in China and its entry will accelerate further investment from Taiwan to China. Such progress in relations contributed to the gradual reduction of tensions between the two.

All these developments like the opening of direct trade, the elimination of Taiwan’s ban on the import of a broad range of Chinese products and liberalization by the Taiwanese government of restrictions on the outflow of FDI to China have contributed to closer bilateral economic relations. These relations act as a powerful incentive to leaders on both sides of the Taiwan Strait to solidify their bond so that they would be able to take full advantage of this interdependent globalized world.

Regular bilateral trade will establish an air of trust and confidence between them. Given the huge interest the US shows in internal affairs of China and Taiwan, such improved economic relationship between these two countries will help the US to further its own interest in the region.

China's accession to the WTO will be an important development. It will be mandatory for China to agree to internationally agreed set of rules and bind them to wide-ranging economic and systemic changes, in order to meet the commitments they have agreed to undertake as a part of WTO accession.

IV Review of Literature

The review of literature on the topic China in the World Trade Organization: Implications for Textiles and Telecommunications is divided into three broad categories. The first set of studies highlights the benefits that would accrue from China's accession to the WTO. The second set discusses the losses that China would incur. The third set looks at the challenges that China faces.

The first set of studies sharply focuses on the issue of China's accession to the WTO and analyzed the benefits that China would have once it joins the multilateral trading system in great detail. Studies by Yongheng Yang, 1996; Anderson Kym, 1997; Yongheng Yang, 1999 suggest that China joining the WTO would immensely benefit her as well as the world economy. Its major trading partners like the US, Japan, and the EU would find a big market for their wide variety of products. Joining the WTO will accelerate the pace of economic reforms and bring benefits to different parts of the country, and not merely allowing them to concentrate on a particular region. It will help China realize its goal of doubling its gross domestic product (GDP) by 2010 and taking its place among the world's largest economies (Panitchpakdi and Clifford: 2002).

Another study carried out by the Association of SouthEast Asian Nations (ASEAN) suggested that China commands a distinct advantage over the ASEAN particularly with regard to future of FDI. It's a huge and dynamic market. The way its economic managers have steered the economy through the Asian financial crisis is commendable. Its political leadership is fully committed to economic reform. The liberalization of its market with the WTO accession will enhance the confidence of
the investors and lower the cost of doing business in the country. It has much to benefit from the system (ASEAN Secretariat, China’s membership in the WTO and its implications for ASEAN, November 2000).

In a study on textiles it was pointed out that China has benefited from the opening up of the sector. It became the world’s largest exporter of textiles and clothing in 1995 and 2002. Its world share in textiles rose from 22 percent to 30 percent during this period (Nordas: 2004). 19 million people are currently employed in this industry which accounts for about 22 percent of total employment of manufacturing industry. In 2005 China’s exports in Textiles and Clothing (T&C) were US $ 31 billion and are expected to grow further (ILO: 2005).

Since December 2001 China has been a member of the WTO and enjoyed a wide range of benefits. These benefits included the 2005 quota phase-out, automatic quota increases after the phase out, as stipulated in the Agreement on Textiles and Clothing (ATC). The growth-on-growth provision under the ATC and China becoming a WTO member in 2001 seemed to signify that the country would receive benefits as other member countries had during the past six to seven years after implementation of Multi Fibre Agreement (MFA) in 1995. The changes that have taken place from 1995 to 2001 have had a tremendous impact on China’s performance in the major importing markets. For example, the US T&C imports from China increased by 125 percent in 2002. In the same period, apparel exports increased by 60 percent. The Chinese exporters reduced their prices in order to gain a greater share in the market. They were able to do so, among other reasons, because quota rents were reduced and the Chinese enterprises increased their productivity by investing heavily in new machinery and technology (Knappe: 2003).

It is generally argued that the T&C firms in China will benefit from the reduction of import tariffs and the eventual elimination of export quotas (Zhang: 2000). The Chinese T&C sector will benefit from the WTO as China can import raw materials and machines at much lower tariffs, which will reduce the production costs and improve their competitiveness. The Chinese exporters will be able to export their finished products, without worrying about the availability of export quotas after 2005 (Zhong and Yang: 2000).
Accession to the WTO will provide the Chinese exports with a steady access to the world markets. It no longer has to depend on yearly renewal of the most favoured nation (MFN) status by the US and other major trading partners. This is likely to increase foreign investment in China resulting in increased output and exports than would have been achieved without accession to the WTO. There will be a surge in FDI as China will open its sub-sectors such as telecommunications, insurance, distribution services, retail, etc, (Agrawal and Sahoo: 2003).

The telecommunications market in China is lucrative and of considerable economic interest to powerful WTO Members. Recognizing this, China has taken several initiatives to open up this sub-sector in a strategic manner. China was already a major purchaser of foreign telecommunication equipment and by 1996–97, two telecommunications equipment firms, Motorola (China) Electronics and Shanghai Bell Telephone Equipment Manufacturing Co. Ltd. were among the top ten foreign-funded enterprises in China. In short, telecommunications investment opportunities are already being exploited successfully and are on a rapid path towards expansion (Janda: 1999). The telecommunications liberalization will foster higher economic growth, as it will effectively integrate the economic activities in the country. The importance it has in the trade facilitation will allow the leadership to exploit the potential of the sector sooner by ignoring the underlying political constraints on trade. It will help in securing a market economy faster as the sector promises to bring more capital (Yan Xu and Pitt: 2002). China’s telecommunications is the fastest growing sector in the world in terms of mobile and Internet users. There is a great scope to benefit from this sector (Harwit: 2004).

The second set of studies paints a gloomy scenario for China as it enters the WTO. Many of these studies indicate that with the opening up and economic reform pursued since 1978, China has experienced a lopsided growth. For them, interior China has witnessed marginal or virtually no growth and as a result people living in these areas have been suffering from hardship and poverty. Demonstrations are increasingly common, reflecting the anger and frustrations of farmers with stagnant growth. They fear that with the entry of the WTO, the country will see a flood of imported industrial products, which will exacerbate their situation further. Meanwhile, some 25 million of the 85 million workers will see their jobs disappear at the state-owned enterprises as
more efficient foreign companies will operate. More imported products will find place in China. This pessimistic scenario suggests that China will collapse. Though this scenario seems unlikely, it is still perceived that China's WTO accession is fraught with peril and promise (Chang: 2001).

Although the WTO is likely to have a positive economic and political impact over the long run, many worry that it will have an adverse effect, particularly in the short to medium term on social equality (both inter and intra regional), exacerbating differences between rural and urban areas, and forcing many people out of jobs (Fewsmith: 2001). In short, many believe that the WTO will spur greater inequality and aggravate unemployment at a time when 8–10 million new workers join the workforce and 200 million rural workers need to be transferred from agricultural to non-agricultural employment. Fewsmith further points out that the WTO may cause unemployment and exacerbate regional inequalities because the East coast appears to be much better developed and positioned to capitalize the opportunities that the WTO presents. The Eastern part of China has advantages in terms of human capital, management, information, transportation, and infrastructure that other regions do not have, and hence will capture a lion's share of new foreign investment. People having higher education and better skills will find employment in high-tech and financial services coming to the Eastern region of China. This lop-sided growth is bound to create regional disparities. How China can control such social unrest without hampering its development is a challenge it needs to handle carefully. There will be larger dislocation and hardship in the near to medium term, but the gains would be materialized only in the long run (Fewsmith: 2001).

On textile front, the picture may not look too optimistic if removal of quota phase-out is taken into consideration. The impression that the phasing out of quota restrictions will allow the Chinese firms to increase their share in world market is somewhat incorrect. The export figures during 2000–2003 are showing an upward trend because the Chinese firms are able to exploit certain loopholes such as rules of origin (via transshipments and rerouting), and this loophole will soon be corrected as the WTO prepares to look into this provision more seriously. Besides, China will face strong competition from other Asian countries like India, Pakistan, Bangladesh, and Sri
Lanka. China has already got into many trade disputes with major countries. That will have an adverse impact on this sector (Yeung and Mok: 2004).

Under the commitments in the telecommunications sector, foreign operators will be permitted to take a 25 percent share in mobile telecom firms, which would be raised to 49 percent after three years. In internet, paging and other value-added services, foreign firms will be allowed immediately to take 30 percent stake in the Chinese companies in Beijing, Shanghai, and Guangzhou, which would be raised to 50 percent in two years, when geographical constraints are lifted by end of 2003. Tariffs on many high-tech products like telecom equipment will be phased out and eliminated by 2005. State-owned telecom giants may be hit as competition between domestic operators heats up, with foreign investment beefing up their infrastructure and services. An increase in the number of network operators could bring more business opportunities to domestic equipment manufacturers. Lower tariffs on telecom equipment could have a limited impact as domestic manufacturers could not benefit from high tariffs (Global Policy Forum: 2000).

The third set of studies focuses on the challenges that China will have to grapple with once it becomes a WTO member. Prof. Li Yining (2000) holds the view that China should start to reconsider present laws in terms of attracting talent and supporting domestic private firms. Opportunities and challenges will emerge but China must make the most of every opportunity. To prepare domestic firms for China's entry into the WTO, the Chinese government must open its domestic industries such as telecommunications and banking wider to the domestic companies, before they are opened to foreign firms. Many people in China agree that the biggest challenge will be the one facing the government sector as there will be profound impact on the way China's economy operates and the way the Chinese government manages its economy. In this regard, the government's role will be shifted from looking after everything to macro-control and let the enterprises decide for themselves. This process will prove to be more difficult than expected and even painful. In the quest to join the global trading regime the issue of China's national sovereignty and the resolve to conform to international rules and regulations has always appeared contradictory and conciliatory by turns, but the movement has invariably been in the direction of eventual integration into the neo-liberal international economic order.
The accession to the WTO creates fear of social unrest as its
domestic economy, social institutions, and weak rule of law will undergo massive
structural adjustment programme to conform to the international rule-based regime.

In the field of textiles, China will face challenges in terms of complying with
international standards. This will be vital for developing and maintaining its
international competitiveness. International standards such as ISO 9000, ISO 14000,
SA 8000 and WRAP (Worldwide Responsible Apparel Production) concerning
quality and environmental management are an immediate challenge for the textile
industry. China is trying to meet such standards (Yeung and Mok: 2004). With the
accession to the WTO, China has anticipated fierce competition that would set in,
particularly at a time when the economy depends so significantly on the advancement
of technology and the regulation adjustment process internally for
telecommunications is becoming complex. The issues of ownership and foreign
investors’ entry occupy the centre of the debate. As China has signed the agreements,
the sector will witness a massive opening. Dewoskin argues that within six years from
the accession, the telecommunications sector will be opened up to 49 percent equity to
foreign investors forcing the Chinese domestic players facing a serious challenge

The WTO accession means for China a giant step forward in its long-term strategy to
catch up with the advanced industrial world by following its principle of market
socialism. The WTO offers significantly medium or long-term benefits to China by
risking itself to a whole lot of social and economic challenges. On the other hand,
China’s trading partners, mostly the developed countries believe that they have
equally risked themselves in trusting the ability of China’s leadership to deliver on its
commitments (Magarinos, et. al: 2002). China faces a wide variety of challenges in
striving to promote national development and rise to the level of the industrial
countries. The WTO accession has already demanded and will continue to demand the
deployment of enormous and highly qualified manpower resources. For instance,
China must amend no less than 177 domestic laws and regulations regarding customs
administration, foreign investment, intellectual property and services to ensure
consistency with the WTO obligations. These laws have to be revised and passed by
the National People’s Congress (NPC). Judges have to be trained, the legal
institutions and procedures need to ensure that the laws are fairly and impartially upheld. In addition, there is a need to maintain the following: momentum of reform; address resource shortages and low productivity; reallocate high percentage of labour force; establish a social safety-net and attend the needs of educational, scientific, and technological demands of the system; and correct regional unevenness and deflationary measures.

The current study while taking into account the above literature makes an attempt to fill some of the gaps. For example, China’s accession process, which took so long, is not completely based on economic factors alone. Political factors are equally important which form part of the current study. Existing literature does not focus adequately on the post-entry period. It delineates the changes that occurred after China’s entry into the WTO in the textiles and telecommunications sectors. The sudden emergence of global financial crisis and its impact on China’s textiles and telecommunications have substantially been analyzed to provide a new perspective on China as well as on the world economy. An attempt has been made by accessing various resources available in China and by discussing with a number of academicians, policy makers and trade and industry captains of China.

V Hypotheses

The study endeavours to test the following three hypotheses.

1. The expectations of benefiting from the global economy have been the main driving force behind China’s entry into the WTO.
2. China’s entry into the WTO will change the dynamics of the current negotiations.
3. China will benefit substantially from its trade in textiles and telecommunications by joining the WTO.

Scope

The study delineates the implications of China’s post-entry scenario. It covers two significant sectors of the Chinese economy, which are textiles and telecommunications. First, it analyzes how China’s leading sector i.e., textiles in global trade regime under the WTO has performed. Secondly, it examines and assesses its growth and prospects. Thirdly, it provides an extensive account of trade
liberalization of telecommunications service sector, its growth in terms of exports, employment, and contribution to its economy. Fourthly, it examines whether the terms of accession have proved to be more costly for China in terms of market access commitments, changes in the legal structure, and meeting the adjustment costs. Lastly, the role that China has played in influencing the negotiating dynamics since it became a formal member of the WTO. All these dimensions are central to the study.

**VI Research Questions**

1. What has been the nature of benefits that China and the rest of the world accrued from the WTO?
2. As an emerging economic power, has China been able to influence the WTO negotiations, particularly after its entry?
3. What has been the annual export growth rate in textiles after its entry into the WTO?
4. How lucrative is the Chinese telecom market for the domestic as well as for the foreign players, and what have been the structural and policy changes that China has undertaken to liberalize this sector?
5. While liberalizing the telecom sector how has the government handled the issue of security and national sovereignty?
6. While phasing out the restrictions in telecommunications sector, did the Chinese leadership lose the freedom of exercising its option of regulation?
7. How has the global financial crisis affected the Chinese economy with particular reference to its textiles and telecommunications sectors?
8. What were the major challenges before the central leadership to tackle the crisis of such magnitude?
9. What has been the response of China in handling such a crisis?

**VII Research Methodology**

The study is carried out using both qualitative and quantitative inputs. Interdependence theories developed by Hirschman (1945), Keohane and Nye (1977), and Caporaso (1978) are applied to see how China has been able to achieve high economic growth and prosperity and emerge as a global economic power. The central arguments in these works are: (A) A notion that asymmetries in trade interdependence
can provide a source of political power; and (B) dependence as a variant of interdependence characterized by a highly asymmetric form of transactions between two or more units are assessed in case of China to determine whether they held true. A sectoral approach is also employed to analyze and assess the trade gains and losses that China experienced, while liberalizing and fulfilling its WTO commitments in the two selected sectors. On carrying out the study, a huge database is used. Databases like the World Integrated Trade Solution (WITS), World Trade Online Database and China Customs were extensively used. Data from China as well as various multilateral institutions like the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), and the WTO were also consulted. Available primary and secondary sources were examined. A field study in China was undertaken to secure the first hand information as the study deals with the direct government policies, its impact on the Chinese economy and world trade. The field trip also helped to source the official data. Some interactions with key trade and industry officials also did benefit the study.

VIII Chapterization

The first chapter (the current one) is an introductory one, which primarily introduces the topic in its context and highlights the significance of the study in the backdrop of China’s integration with the world economy. It delineates the central issue of the study in a systematic fashion so as to provide an understanding on the research problems from the very beginning it seeks to address. The review of literature broadly highlights the existing perspectives on the subject while exposing the gaps that need to be addressed in the study.

The second chapter deals with the issue from a theoretical perspective. The theory of interdependence is employed to see how China and the members of the WTO need each other for mutual economic growth and development while continuing to address the differences. Political constraints might have been a hindrance, but dependence on trade has, however, been a contributing factor to mutual economic growth. The sectoral approach is taken to establish the strengths and weaknesses of the two sectors and how they have performed after China’s entry into the WTO. The chapter evaluates the practical aspects of China joining the WTO.
The third chapter analyzes the process of accession in detail. It not only provides a historical overview of the negotiation process but also examines how the internal decision-making process is vital to initiating various accession commitments. It also assesses the agreements and disagreements over the critical issues that led to the signing of bilateral agreements between the major trading partners like the US, EU, Canada, and Japan as these were mandatory for its accession to the WTO. Finally, it takes into account the commitments China had to make to get an entry into the WTO.

The fourth chapter delves into the emergence of textiles sector in China in post-entry phase and locates its place in the world market. It seeks to explore the question as to how China, with modern technology, low cost labour and product branding, has been able to develop global competitive advantage. It also analyses the key role played by FDI to transform the textiles sector into a pillar industry in China and also how it eventually helped to spur the growth in exports. It examines the implications of global financial crisis and global economic slowdown on this sector and strategies that China has followed to minimize the impact and accelerate the growth of the textiles and clothing sector.

The fifth chapter provides a critical examination of the growth of telecommunications sector in China. It analyses the structural and policy changes it has undertaken to liberalize this sector. It seeks to answer certain key questions. How do consumers benefit from its competitiveness? How does the telecommunications sector help in the economic activities of the country and directly contribute to its economic growth? Its export growth potential and future prospects are substantially analyzed to indicate the kind of role it plays in the Chinese economy. It also assesses the impact of global financial crisis and economic slowdown on the sector and examines the efficacy of the measures that the government has taken to reduce the impact.

The sixth chapter summarizes the major findings of the study. It highlights the centrality of the argument of theory of interdependence and sectoral approach to locate China’s position in the context of the global economy. It delineates the factors responsible for long and arduous process of accession. In the end, it explains how China has retained its global competitiveness in the textiles and telecommunications sectors.