



China and the WTO: One Year On

By William R. Dodson

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Vice Minister Long Yongtu, Chief Representative for Trade Negotiations, Ministry of Trade and Economic Cooperation, People's Republic of China said at a recent luncheon in Chicago, USA that in two days time would be the first anniversary of China's accession to the WTO. The Executives' Club of Chicago hosted the lunch, which was attended by nearly 150 business and government representatives from America and China. In the past year, he asserted, China had made great strides in opening its markets and implementing the rule of law. He warned, though, that China had thousands of years of history and culture that would have to change to make the transition to a market economy successful.

Mr. Long emphasized that China would have to change its mentality in very fundamental ways for its markets to continue to benefit from Foreign Direct Investment (FDI) and for investors to feel they could make money in the China Market. Some of those mindsets included "win-win thinking," transparency, and the concept of "national treatment."

Historically, China has supported a zero-sum worldview. Vice Minister Long summarized the sentiment in the Chinese saying, "You Dead, I Alive." In the Chinese business environment, then, that means the Chinese must begin to see that even Wholly-Owned Enterprises (WOEs) owned by foreigners that employ Chinese and pay tax revenues are actually part of Chinese society: foreign investment cannot be treated as something apart from society. He likened the Chinese attitude to the sort of change a Chinese would have to make when a family member married a foreign woman – the Chinese family would need to open its arms to the woman to accept her.

Mr. Long likened the Chinese perspective on transparency of its business dealings to the Chinese saying, "If the water is too clean, there can be few fish." In other words, Chinese culture assumes a level of opaqueness to the way it performs business. After all, the traditional Chinese attitude to business would have it, there cannot be a lot of business happening if everything is exposed to public scrutiny. The Vice Minister re-emphasized the efforts China has made to abolish many of the laws that obscure business transactions.

The WTO concept of National Treatment normalizes the perception and treatment of foreign companies in China. The Chinese government must treat foreign companies as it would treat Chinese companies. The Government cannot give special breaks to foreign companies it wouldn't give to Chinese businesses; nor would it give foreign businesses undue barriers to doing business that it wouldn't give to Chinese businesses. National Treatment also extends into the way the PRC treats its own businesses: it must treat its State-owned Enterprises (SOEs) the same way it treats its private enterprises.

The Vice Minister pointed out that the package of points of agreement between the WTO and China was some 500 pages thick. Since its ratification, China has amended twenty national laws to date to liberalize its markets; 2000 more laws have been called out for review; and 850 laws have been abolished. China, however, is historically used to having many of its laws recorded only in "internal documents" that are not published to the citizenry. However, Vice Minister Long noted, "laws that are not published, cannot be enforced." Hence, the People's Republic of China (PRC) is making a concerted effort to circulate its laws.

Another challenge the PRC has is "rooting out protectionism and inconsistency" in the local laws, and to make those laws "stable and predictable."

The Vice Minister highlighted the fact that FDI in China had nonetheless grown from \$10 billion in 1978 to \$150 billion in 1997 and \$300 billion in 2002.

The Vice Minister emphasized that China has a domestic focus. "China must keep up its high growth rate," he said. "China must grow 50 million jobs per year – the population of Australia. China cannot maintain social stability otherwise." He noted that China has a per capita income of \$900: one-tenth that of the US and one-quarter that of Japan. China has 4% of the world's GDP, and 3.8% of its exports.

He used the steel industry as an example of just how far China has to go in the development of its markets. China's is the largest producer of steel in the world; however, 90% of the SOEs use the steel, while the remaining 10% is for export. Finally, though, China has to import \$10 billion of steel each year.

When asked if China's infrastructure will be able to keep up with the tremendous inflows of FDI, the Vice Minister replied that countries like the United States could help China develop its most important infrastructure element: its people. "The human factor is the most important aspect of attracting additional FDI," he said. Hence, China is producing 600 thousand engineers each year to work on its large infrastructure projects. "Now, China only has 120 thousand lawyers. Some estimates are that a country needs at least 300 thousand lawyers to make the rule-of-law work. And then, the country also needs about one million auditors."

The Vice Minister also commented on China's commitments to the WTO on the Information Technology industry. "By 2015," he said, "tariffs on the development of IT will be zero."

Mr. Long also noted that some Chinese ministries felt they were not consulted during China's negotiations with the WTO. Some of the ministries have been subsequently resistant to change. However, Mr. Long noted, "the PRC is not giving the ministries the choice of acceptance. Chinese government agencies will accept WTO obligations comprehensively, not piecemeal."

Once Chinese people change their mentality, the Vice Minister asserted, they will be able "to take advantage of all the resources in the world."

"China," Vice Minister Long concluded, "is no threat to others. China wants to join hands with other countries to create a strong, new world."

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