Liberalization Efforts in China and Accession to the World Trade Organization

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I. GROWTH SCENARIO

After decades of central planning, excessive emphasis on heavy industry at the expense of light industry and adoption of an inward-oriented development strategy, the Chinese economy turned a corner in 1978.¹ It grew with a healthy clip through the 1980s and 1990s. Gross domestic product (GDP) increased by 10 percent per annum in real terms over the 1981-2000 period. In a short span of two decades, the People’s Republic of China (hereinafter China) transformed itself from being a centrally planned, near-autarky to being a relatively open economy as well as an important player on the global economic and trade scene. The first decade of the 21st century is a strategic period for China. During this period, China is expected to lay the foundation of becoming an industrial economy.

Establishment of several special economic zones (SEZs) led the post-1978 growth strategy in China—the so-called “open-door” policy. Foreign firms and joint ventures were allowed to establish export-oriented industries, which led to a phenomenal growth in foreign invested firms (FIFs). During the period when wide-ranging reforms were underway, the economy continued to suffer from several distortions, weaknesses and bottlenecks. Notwithstanding these, during the post-1978 period, as seen above, it grew at a double-digit long-term growth rate—so much so that this rapid growth qualifies to be referred to as a momentous economic event of the 20th century, having far-reaching implications for both the regional and global economies. Brisk growth in exports and foreign direct investment (FDI) has, inter alia, helped in turning China into an important player on the global economic stage. FDI was essentially directed to manufacturing, in particular to exportables. Consequently, China grew into a manufacturing and export colossus in a short span of two decades.

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¹ At the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party (CPC) in December 1978, the People’s Republic of China adopted its “open-door policy”. This became famous as the so-called Deng doctrine because Deng Xiaoping was the intellectual father of this liberal economic strategy. This marked a turning point in Chinese economic performance as well as economic history.
Since the adoption of the open-door policy, the GDP has grown almost fivefold, per capita income has quadrupled, and 270 million Chinese have been lifted out of absolute poverty (The Economist, 2001a). In 1990, China's GDP was US$ 378.8 billions and per capita GDP was US$ 341.60 (CSY, 1991). A decade later, in 2000, GDP reached US$ 1,080 billions, while per capita GDP rose to US$ 853.40. When income is measured in a manner comparable to other developing economies, China had become a middle-income country by the early 1990s (Garnaut and Ma, 1993).

Rapid real growth attracted a good deal of scholarly attention. Researchers have rediscovered China, so to speak, as an economy of enormous significance. Several long-term growth projections were made which concluded that in terms of purchasing power parity, China's GDP may be one of the world's largest in the early decades of the 21st century (Maddison, 1991; Summers, 1992). Those who made comparisons between China's recent growth and that of the United States from 1870 to 1900, Japan from 1950 to 1980, the Republic of Korea from 1960 to 1990 and Taiwan from 1960 to 1990, contended that China could become one of the largest global economies by 2020 (Boltho et al., 1995). In 1980, China accounted for only 3.6 percent of global GDP and 0.8 percent of its exports of manufactured goods. Boltho et al. estimated that by 2010 China could account for 15.5 percent of the world's GDP and 6.4 percent of its exports of manufactured goods. According to a forecast by Morgan Stanley, if China's move towards market orientation continues, by 2020 its GDP will grow to be US$ 10 trillions in year-2000 dollars.

For the year 2000, China's exports of goods and services stood at US$ 275.13 billions and imports at US$ 226.7 billions. Out of the twenty-two years between 1978 and 1999, China's export growth rate was higher than its GDP growth rate during seventeen years. For the same number of years, trade (exports plus imports) grew faster than imports. This implies that during the reform era the Chinese economy has been integrating aggressively with the global economy by way of trade. It has been establishing niche markets for its goods and services globally as well as providing a market for exports from other economies (see Tables 1 and 2).

According to 1999 statistics, the export-to-GDP ratio in China was 20.6, while the trade (exports plus imports)-to-GDP ratio was more than 40 percent. Given China's population size, potential market, size of GDP and diversity of resource endowments, on the one hand, and its ongoing reform process, outward orientation and brisk growth, on the other, its accession to the World Trade Organization will certainly have a meaningful impact upon the regional as well as the global economy. As the statistics above show, China is currently one of the more open economies. Therefore, it is a vast potential market for regional and global exporters. It is easy to visualize it as the next locomotive of, at least, regional growth. Garnaut and Huang (2000) posit that, due to relatively large differences

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