

**CHINA'S ACCESSION TO WTO:  
ITS IMPACT ON CHINESE EMPLOYMENT**

*A.S. Bhalla and S. Qiu*

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**DISCUSSION PAPERS**

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# CHINA'S WTO ACCESSION: ITS IMPACT ON CHINESE EMPLOYMENT<sup>1</sup>

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## Abstract

*It is often claimed that the WTO membership will benefit China by increasing exports and employment and forcing domestic firms to improve efficiency through competition. Benefits are expected to accrue through improved resource allocation and greater economic efficiency resulting from trade liberalization and greater global competition. In the paper we argue that although some sectors will benefit from competition others will suffer a great deal especially in the short and medium terms. The net overall benefits are likely to accrue only in the long run. During the transition period China will face enormous problems of restructuring of state-owned enterprises (SOEs), and banking, insurance and financial services, entailing significant loss of employment. The employment impact of the accession with special reference to SOEs is considered since they are generally less competitive than the non-state enterprises. Reduction in SOE employment may not be compensated by an increase in employment in the non-state sector. The experience of three specific industries is discussed: textiles and clothing, automobiles and household appliances*

*Besides the unemployment impact of the accession, the paper examines the possibility of a 'flying geese model' of trade and development working within China to maintain its global competitiveness on account of low labour costs in the hinterland. It also discusses China's possible response to global competition to protect employment, for example. Three types of response are considered: non-compliance of the WTO accord, devaluation, and a production shift from tradeables to non-tradeables.*

## INTRODUCTION

China's accession to WTO will affect its economy in the short, medium and long runs. The key areas of influence are: trade liberalization (tariff reductions and abolition of non-tariff barriers (NTBs); trade-related investment liberalization (TRIMs); protection of intellectual property rights (TRIPs); and anti-dumping duties. In this paper we will discuss mainly trade liberalization under WTO rules and its impact on employment in the Chinese economy with particular reference to the industrial sector. The WTO membership is expected to help China by increasing exports and employment and forcing domestic firms to improve efficiency through competition. However, competition could force weak domestic firms to close, thereby increasing unemployment at least in the short run. Some sectors will benefit from competition while others will suffer a great deal especially in the short and medium terms. The net overall benefits are likely to accrue only in the long run. Although trade will expand after the accession, a large-sized country like China with a huge domestic market will find foreign trade less important than the smaller economies. At any rate, depending on the particular sectors exports will expand with a time lag due to capacity and other constraints. During the transition period

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<sup>1</sup> This paper is based on a field visit to China (Beijing and Guiyang in Guizhou province in Southwest China) in March–April 2001. We are most grateful to several officials in the Chinese governmental institutions for holding discussions and supplying data, notably, the State Economic and Trade Commission (SETC), the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the Development Research Centre of the State Council, and the Ministry of Labour. We owe a debt of gratitude to the Provincial Government of Guizhou for arranging our trip to a state-owned factory (Box 1). A large number of documents available only in the Chinese language and obtained by us in Beijing have been reviewed. In the References below, the original Chinese titles are presented in English alphabet.

China will face enormous problems of restructuring of state-owned enterprises (SOEs), and banking, insurance and financial services, entailing significant loss of employment.

Trade liberalization was accelerated in the second half of the 1990s compared to the first half, presumably to expedite the process of China's entry into the WTO. It is generally believed that China's tariff and non-tariff barriers are still very high. While this may be true of particular goods (e.g. automobiles) these barriers are not high compared to those in the Republic of Korea and Japan. In fact processing trade is exempted from import tariffs. Table 1 presents simulations of tariff and quota reductions in the post-accession period, which show that reductions will be generally higher for manufactured than for primary goods.

The first section of the paper discusses relationship between trade, competition and employment. The second section is devoted to the employment impact of the accession with special reference to SOEs. In this context, the future of textiles and clothing, automobiles and household appliances is analysed in the third section as specific cases. The fourth section discusses China's possible response to global competition in the form of non-compliance of the WTO agreement, devaluation to protect inefficient sectors, and a production shift from tradeables to non-tradeables. The final section makes some general concluding remarks.

**Table 1**  
**Tariff and non-tariff protection rates for China for its WTO accession**  
(Per cent)

	2000	2001	2002	2003	2004	2005– 2010	Rate of reduction	Initial NTB
Grains and oilseeds	27.7	26.2	24.6	23.0	21.5	21.5	22.5	
Planted fibre	73.5	67.7	61.9	56.1	50.3	50.3	31.6	
Non-grain crops	22.1	19.7	17.5	15.4	14.5	14.5	34.4	
Livestock	21.4	20.5	19.5	19.3	19.2	19.2	10.4	
Dairy and meats	16.7	14.9	13.2	11.5	11.4	11.4	31.8	
Processed food	34.3	31.1	27.8	24.7	22.4	22.4	34.8	2.7
Tobacco and beverage	50.0	44.8	39.6	34.4	29.2	29.2	41.6	2.7
Forestry and fishery	4.4	3.1	2.7	2.6	2.6	2.6	40.8	
Mineral and energy products	1.3	0.3	0.3	0.3	0.3	0.3	74.7	9.4
Textiles	25.4	22.0	18.5	15.2	12.4	12.4	51.2	7.0
Clothing	32.1	28.5	24.9	21.4	17.9	17.9	44.3	
Leather and shoes	12.2	10.5	9.1	8.6	8.6	8.6	29.6	
Other light manufacture	13.7	12.8	11.9	11.2	10.7	10.7	21.9	
Wood and paper	11.4	9.1	7.0	5.1	4.3	4.3	62.2	5.5
Intermediates	11.8	9.8	8.2	7.1	6.9	6.9	41.8	12.0
Motor vehicles	33.3	29.2	25.1	21.1	18.4	18.4	44.7	26.3
Other transport	4.9	3.8	3.7	3.6	3.5	3.5	29.1	11.2
Electronics	11.6	9.0	6.3	3.7	3.0	3.0	74.5	7.8
Machinery	13.5	11.4	9.6	8.1	7.4	7.4	45.5	5.1
Traded services	29.7	25.8	21.9	18.1	14.2	14.2	52.0	
Average	17.0	14.5	12.2	10.2	8.9	8.9	47.6	

**Source:** Wang and Ma (2000). Rates are estimated by aggregating China's tariff cuts from six-digit Harmonized Commodity Description and Coding System (HS) tariff schedules based on United States-China agreement (November 1999) and weighted by import data from China's Customs. Estimates on China's non-tariff barriers (NTBs) on industrial products are based on Zhang et al. (1998) and Li et al. (1998).

**Note:** These are estimates based on simulation exercises, rather than actual data for 2000. The import quotas for grains and plant fibres are assumed to grow at an annual rate of 5 per cent till 2005 when they will be eliminated and replaced by a uniform tariff of 15 per cent. All non-tariff barriers are assumed to be reduced by 20 per cent annually from 2001 reaching zero in 2005. The opening up of China's major services sector is taken into account by assuming a 50 per cent cut on sector's protection.

## I. TRADE, COMPETITION AND EMPLOYMENT

A few years ago the debate on North-South trade and its implications for employment and income inequality (e.g. Wood, 1994) explained declining manufacturing employment in the North by exports of labour-intensive manufactures from the South. It was assumed that de-industrialization in such countries as the US resulted from a lack of industrial competitiveness in the global economy. However, Krugman and Lawrence (1994) argued that international trade was not the main cause of shrinking manufacturing employment and declining real wages of the less skilled workers in the United States. Instead, it was due more to such *domestic* factors as a shift of spending from manufacturing to services and to automation or labour-displacing technological change. Will these arguments apply to China after the WTO accession? In other words, will exports raise employment whereas increasing import competition and lack of competitiveness of Chinese SOEs reduce employment in its manufacturing sector? There is no simple answer to this question since all SOEs are not uncompetitive.

China is a semi-industrial developing country, and thus not a service economy like the United States. So while contracting of manufacturing employment will take place with or without the accession (due partly to technological unemployment and demand conditions) a substantial shift of spending away from manufacturing is unlikely to occur. The manufacturing trade balance – the difference between the amount of manufactured exports and imports, can measure an assessment of the overall impact of international trade on the size of the manufacturing sector. In the case of China, manufacturing trade balance has been growing since the mid-1990s with exports exceeding imports (table 2).

**Table 2**  
**Manufactured goods trade, 1991–1999**  
(\$ billion)

Year	Total			Chemicals and related products			Goods classified chiefly by material			Machinery and transport equipment			Miscellaneous and other goods		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1991	55.7	52.96	2.74	3.82	9.28	-5.46	14.46	10.5	3.96	7.15	19.6	-12.45	30.28	13.58	16.7
1992	67.94	67.33	0.61	4.35	11.16	-6.81	16.14	19.27	-3.13	13.22	31.31	-18.09	34.23	55.59	-21.36
1993	75.08	89.75	-14.67	4.62	9.7	-5.08	16.4	28.53	-12.13	15.28	45.02	-29.74	38.78	6.5	32.28
1994	101.3	99.13	2.17	6.24	12.13	-5.89	23.22	28.08	-4.86	21.9	51.47	-29.57	49.94	7.44	42.5
1995	127.3	107.67	19.63	9.09	17.3	-8.21	32.24	28.77	3.47	31.41	52.64	-21.23	54.55	8.95	45.6
1996	129.12	113.39	15.73	8.88	18.11	-9.23	28.5	31.39	-2.89	35.31	54.76	-19.45	56.44	9.13	47.31
1997	158.84	113.75	45.09	10.23	19.3	-9.07	34.43	32.22	2.21	43.71	52.77	-9.06	70.47	9.46	61.01
1998	163.1	117.29	45.81	10.32	20.16	-9.84	32.39	31.08	1.31	50.2	56.85	-6.65	70.2	9.21	60.99
1999	174.99	138.85	36.14	10.37	24.03	-13.66	33.26	34.32	-1.06	58.84	69.45	-10.61	72.52	11.05	61.47

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