

# **Greater China's WTO Accession:**

**Implications for International Trade/Production  
and for Hong Kong**

**Joseph Francois**

Erasmus University, Rotterdam

**Dean Spinanger**

Institute of World Economics, Kiel

# Scope and Thrust of Study

- I. Introduction and Overview
- II. Modeling the Likely Impact of Greater China's WTO Accession
- III. The Effects of a WTO Accession
- IV. Summary and Conclusions

# I. Introduction and Overview

Why is it important?

Economically

Symbolically

# Economic Importance - 1999

	G-CH	USA	EU15	JAP
Area (1000 km)	9635	9365	3245	380
Pop. (mills.)	1320	275	380	125
Trade (bill. US\$)	340	695	795	420
GDP (bill. US\$)	1380	8200	8450	4130
GDP-PPP(bill. US\$)	4550	8200	7720	2960

## Symbolic Importance

It is not just that Greater China became a full member of world community.

Just as Hong Kong joined in the year the Uruguay Round was initiated, Greater China joined in a year when the biggest MTN **EVER** began.

# The GTAP – CGE World a la François/Spinanger

Not a simple extrapolation.

Not a crystal ball approach.

Cutting-edge CGE technology - GTAP5, of course.

And we kept our eyes on the goal....we never let ourselves be distracted from the bottom line...like others have.....

# The GTAP5 Model

General equilibrium: multi-sector, with linkages through intermediate inputs and factor markets.

Calibrated : the model is “bench-marked” to baseline scenario in 1997.

Data: GTAP social accounting matrix data.

Policy data: include GTAP tariffs, final WTO accession tariffs for P. R. China & Chinese Taipei, service sector protection, newly calculated quota rents and imputed competitive advantage for China.

# 23 Sectors

Wool	Leather	Wh-ret-trd
Nat.fibers	Chem. Ref.	Transport.
Prim. food	Steel	Commun.
Oth. prim.	NF-metals	Const.
Sugar	Motor veh.	Fin-ins-rel.
Proc. food	Electronics	Comer.serv.
Textiles	Oth. Mach.	Oth. Serv.
Clothing	Manuf. nes	



# 25 Economies/Regions

<u>Hong Kong</u>	Other S. Asia	Brazil
<u>China, P. R.</u>		MERCOSUR
<u>Chinese Taipei</u>	Australia	Chile*
	New Zealand	Other Lat Amer.*
Japan		
Korea	Canada	Europ Union
ASEAN5	United States	Turkey
Vietnam		
	Mexico	Africa+Mid-East
India	CBI*	Rest of World
Bangladesh	ATP*	(*not in tables)

# Scenarios

- 1: ATC quota phaseout for all WTO members.
2. ATC quota phaseout for China (PRC).
3. ATC quota phaseout for Chinese Taipei.
- 4. Sum of ATC quota phaseouts (1+2+3).**
5. China's (PRC) WTO access. package cum tariff reduction, agric/services liberalization + compet.advant.for T&C ind.
- 6.. Chinese Taipei's WTO access. package cum tariff reduction, agric/services liberalization.
- 7. Sum of accession packages (5+6).**
- 8 Total effect (4+7).**

## Competitive 10% Plus for PRC

China's opening up implies greater potential than expressed in relative price changes.

Based on personal interviews of CEOs of major T&C producers/traders in Hong Kong.

Conclusions drawn from various questions re. corp. policies after PRC's WTO entry.

## Quota Rents 1998/99

Country	Textiles		Clothing	
	EU	US	EU	US
PRC	12.0	20.0	15.0	33.0
INA	12.0	9.8	15.2	34.2
<b>HKG</b>	<b>1.0</b>	<b>1.0</b>	<b>5.0</b>	<b>10.0</b>
TUR	1.5	7.0	0.0	4.9
CEA	0.0	6.9	0.0	5.0
MEX	0.1	0.0	4.7	0.0

## T&C Exports to World: 90-94 and 94-99 (% $\Delta$ )

<b>Country</b>	<b>90*</b>	<b>90-94</b>	<b>94*</b>	<b>94-99</b>	<b>99*</b>
China	(3)	<b>20.5</b>	(1)	3.0	(1)
Korea	(4)	4.0	(4)	0.2	(5)
Taiwan	(7)	<b>7.9</b>	(5)	0.2	(6)
Thailand	(16)	<b>13.2</b>	(14)	-3.1	(18)
Bangladesh	(38)	<b>19.6</b>	(29)	<b>20.1</b>	(21)
* Rank					

# Clothing Exports to World: 90-94 and 94-99 (% $\Delta$ )

Country	90*	90-94	94*	94-99	99*
China	(2)	25.2	(1)	13.5	(1)
Italy	(1)	1.4	(2)	1.2	(2)
Hong Kong	(3)	0.5	(3)	0.4	(3)
Mexico	(34)	30.5	(21)	39.1	(5)
Bangladesh	(35)	25.6	(26)	22.7	(12)
* Rank					

## %Δ „C“ Exports by Scenario

	1	4	7	8
INA	337.9	242.6	-25.0	217.5
PRC	-6.4	87.8	80.0	167.8
<b>HKG</b>	<b>30.2</b>	<b>4.7</b>	<b>-7.0</b>	<b>2.3</b>
BGL	20.9	1.5	-9.4	-7.9
TUR	-4.6	-13.4	-18.5	-31.9
MEX	-26.3	-51.2	-36.4	-87.6

## %Δ „T&C“ Exports by Run

Country	T4	T5	C4	C5
PRC	36.5	38.9	121.7	167.8
INA	6.0	-1.4	97.0	217.5
<b>HKG</b>	<b>-3.2</b>	<b>2.7</b>	<b>2.8</b>	<b>-2.3</b>
TUR	0.2	-7.4	-17.0	-31.9
EU15	-7.4	-10.5	-21.0	-27.1
MEX	-10.0	-20.7	-33.7	-87.6



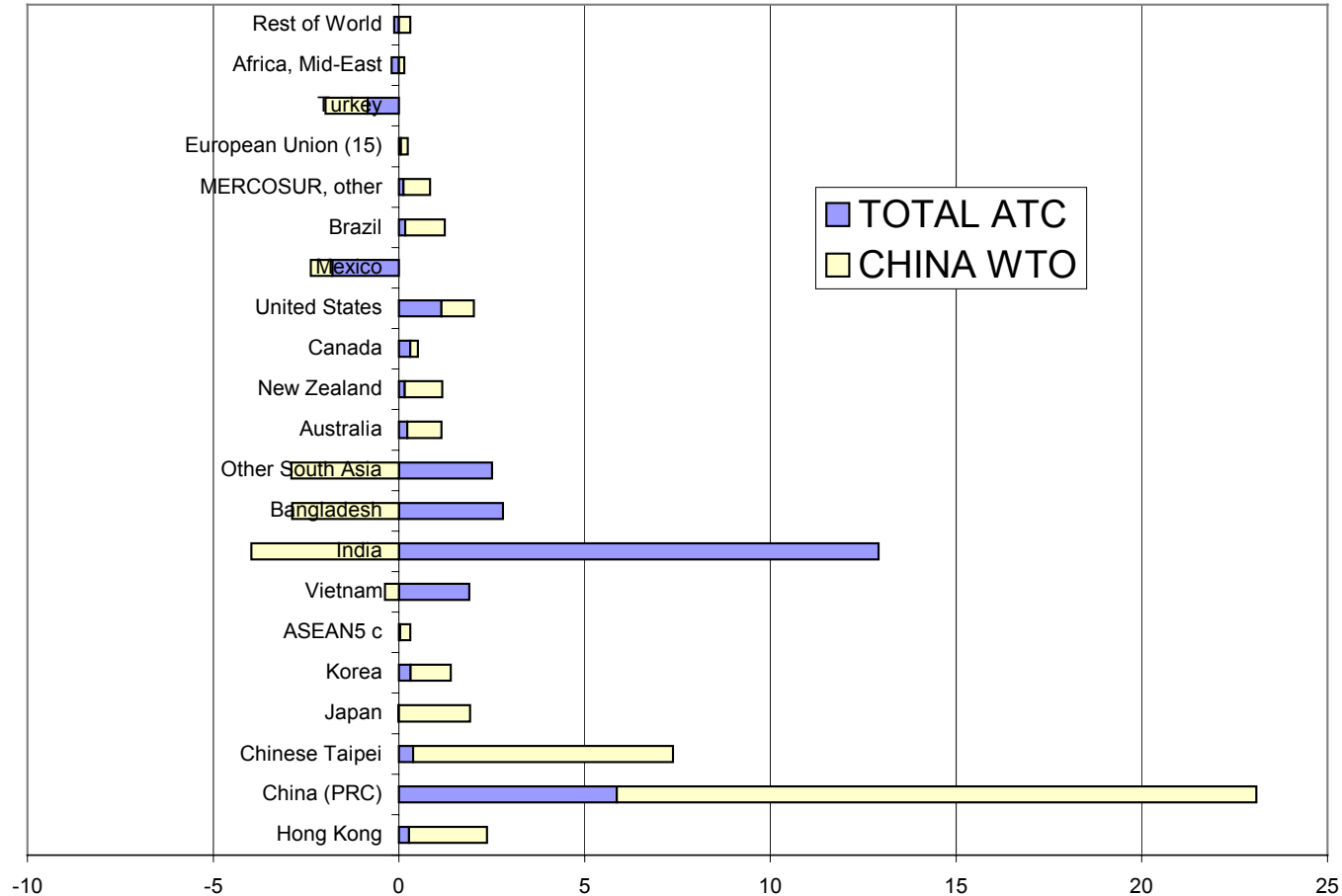
# Changes in Welfare by Scenario

(Bill. US\$)

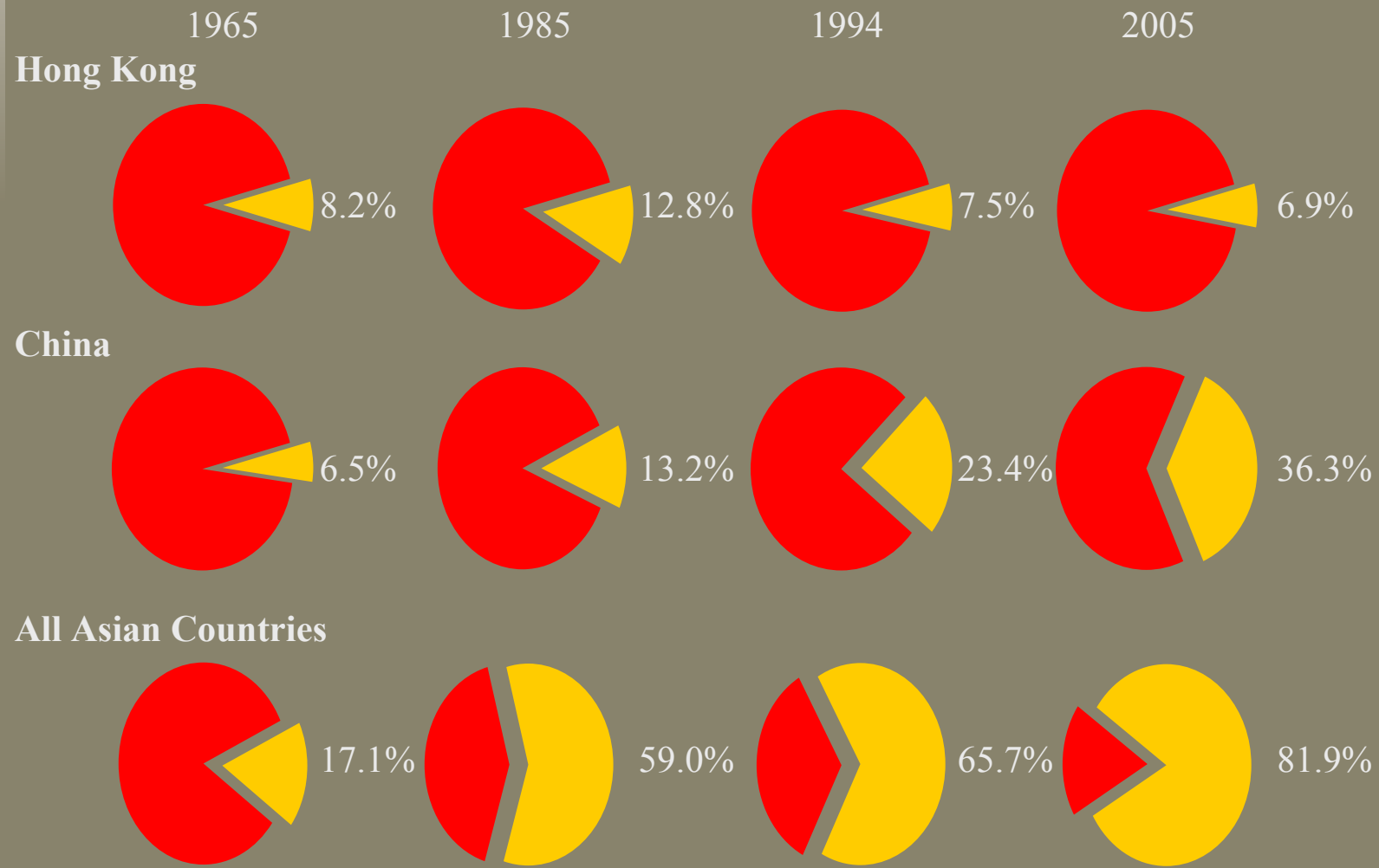
Country	Total
1. HKG	3.3
2. HKG	3.9
<u>3. HKG</u>	<u>5.2</u>
1. PRC	122.8
2. PRC	125.5
3. PRC	113.2

1=rents go to exporter; 2=rents go to importer; 3= China hit by NTBs.

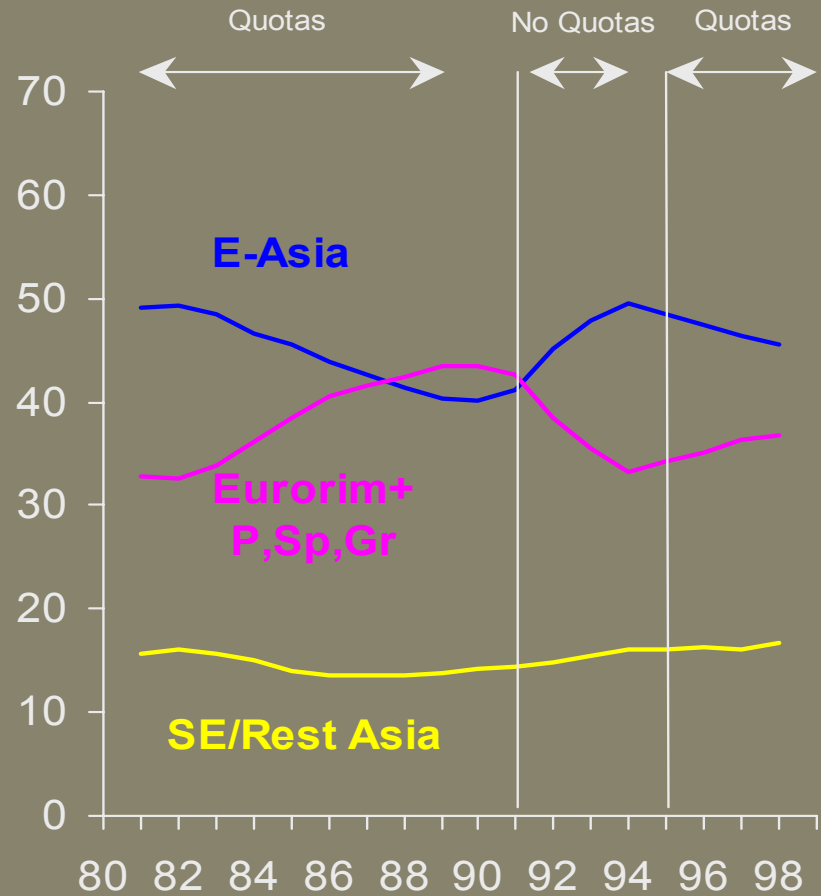
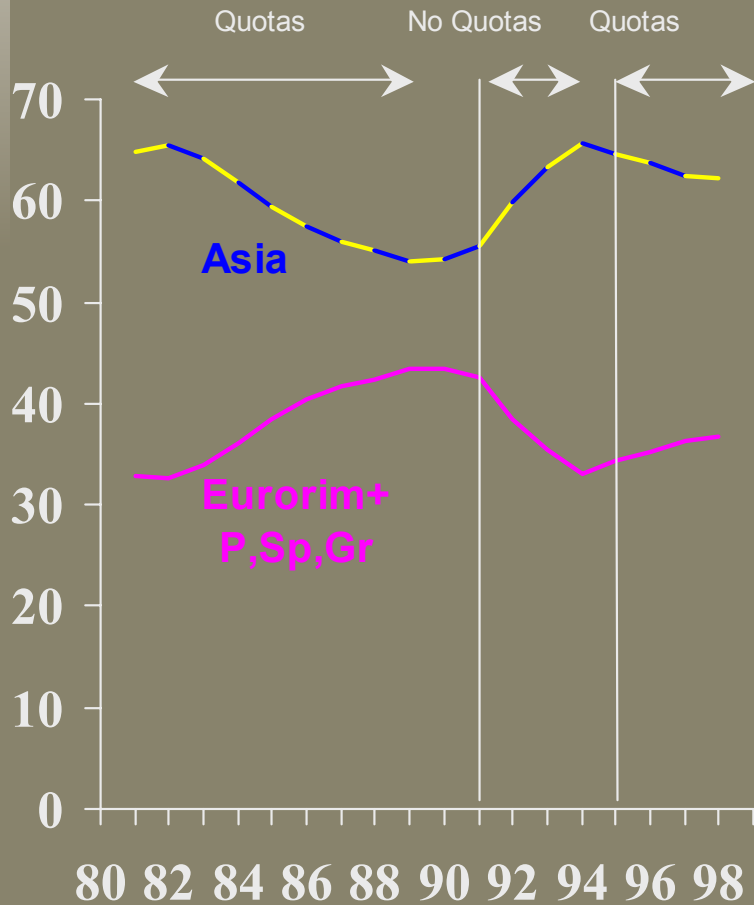
# Percent Impact of ATC Phaseout and China Accession on Total Exports



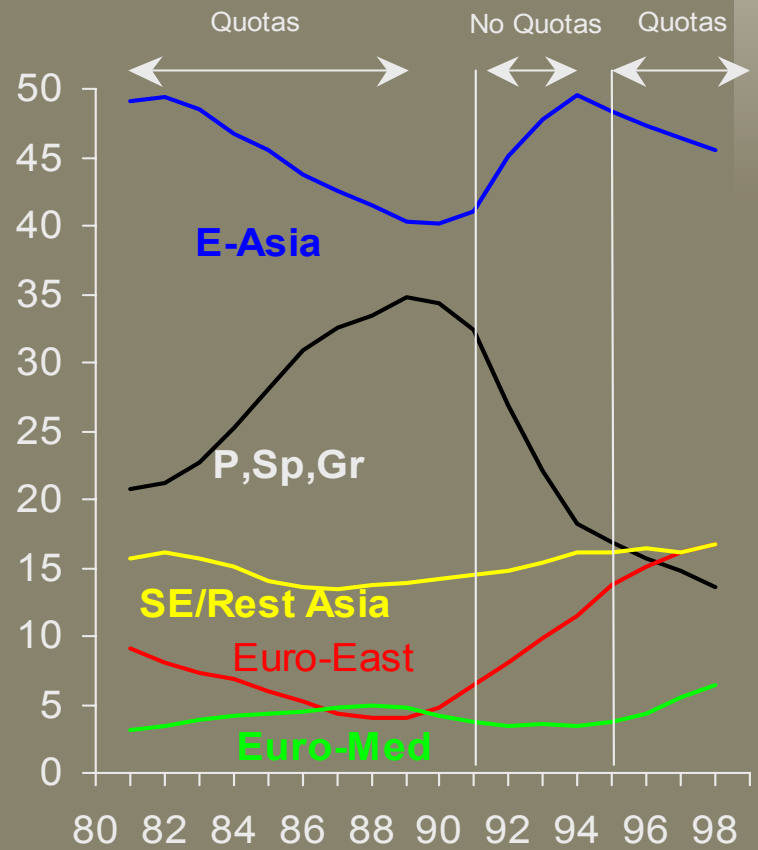
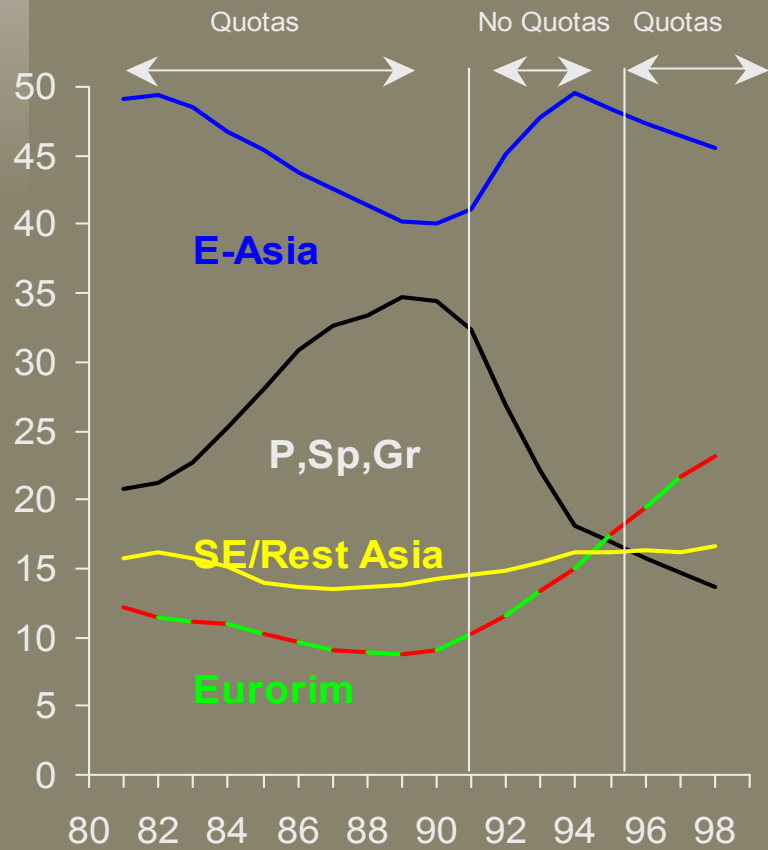
## Textiles & Clothing Exports from Hong Kong, China and All Asian Countries in Total T&C Exports from Non-Industrial Countries (%).



Sweden's Clothing (SITC 84) Imports from Selected Regions in % of (NON-OECD+P;GR;SP) Clothing Imports, 1980-1999 - Moving 3-year  $\emptyset$

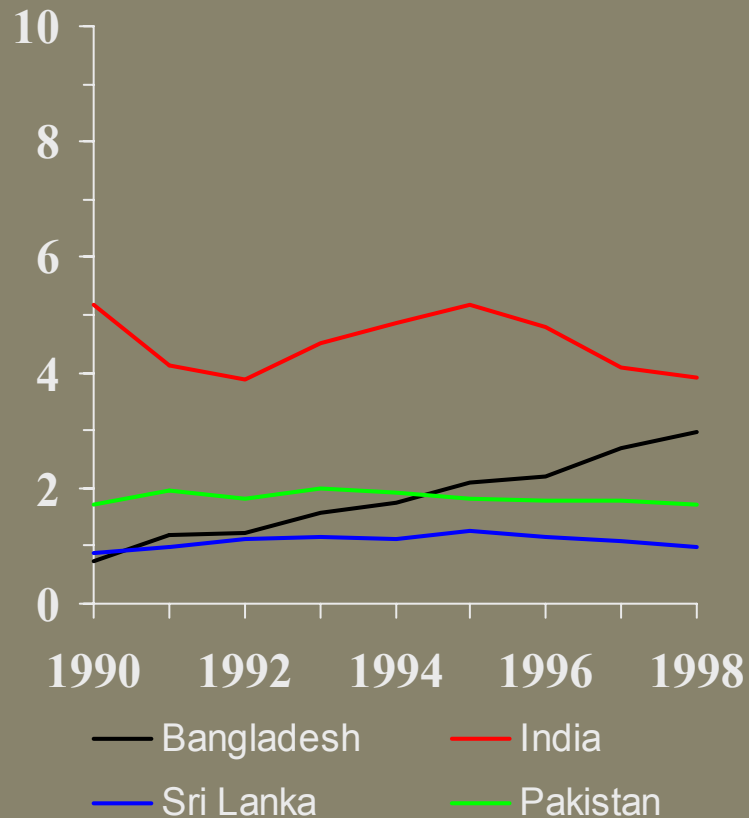


*Sweden's Clothing (SITC 84) Imports from Selected Regions in % of (NON-OECD+P;GR;SP)*  
*Clothing Imports, 1980-1999 - Moving 3-year Ø*

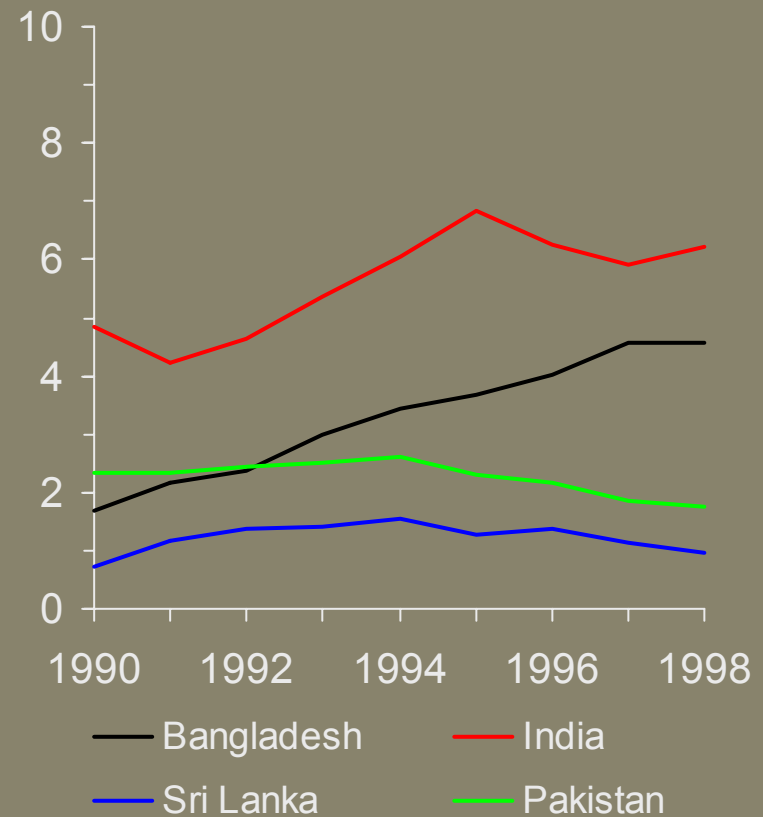


*Clothing Imports of Germany and France from 5 South Asian Countries  
in % of NON-OECD Clothing Imports, 1990-1998*

# Germany

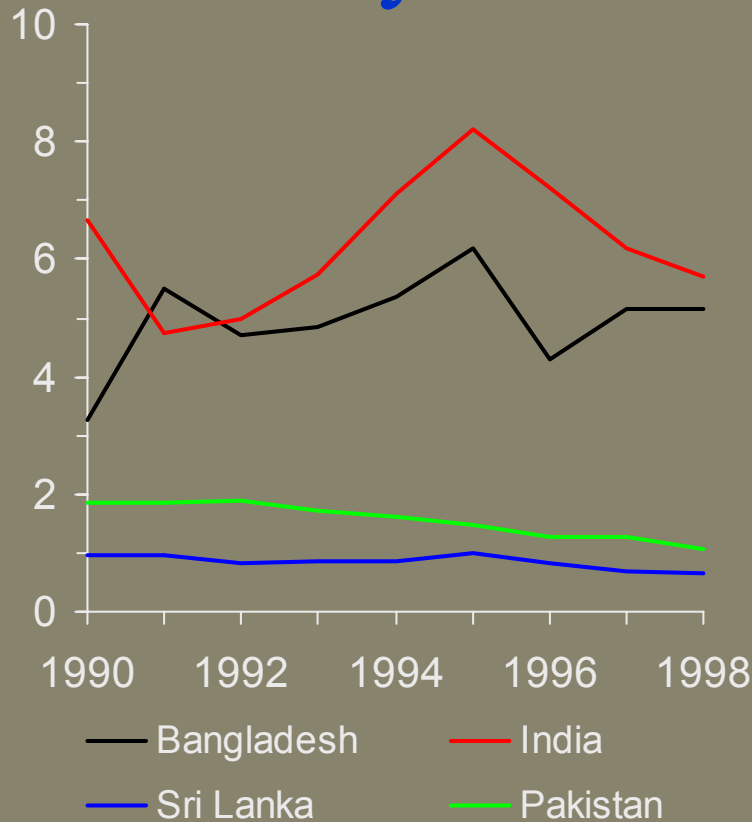


# France

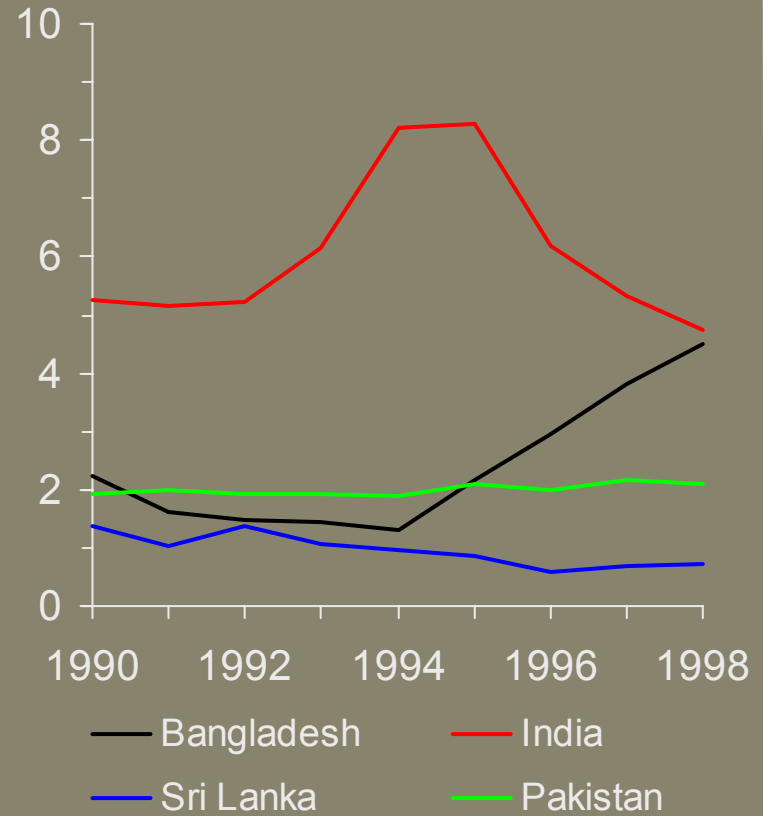


*Clothing Imports of Italy and Sweden from 5 South Asian Countries  
in % of NON-OECD Clothing Imports, 1990-1998*

## Italy

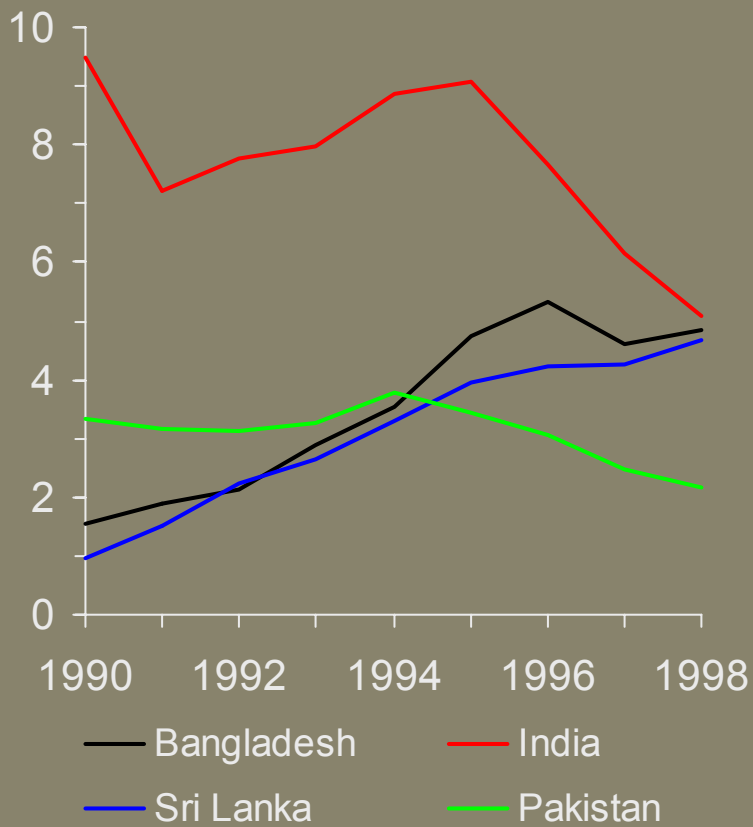


## Sweden

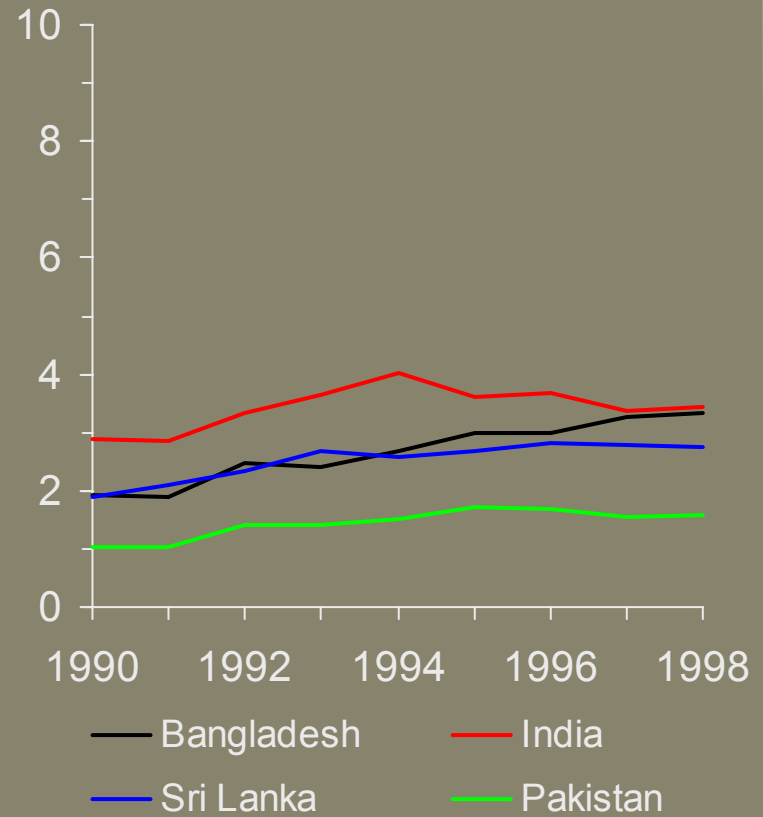


*Clothing Imports of UK and USA from 5 South Asian Countries  
in % of NON-OECD Clothing Imports, 1990-1998*

United Kingdom

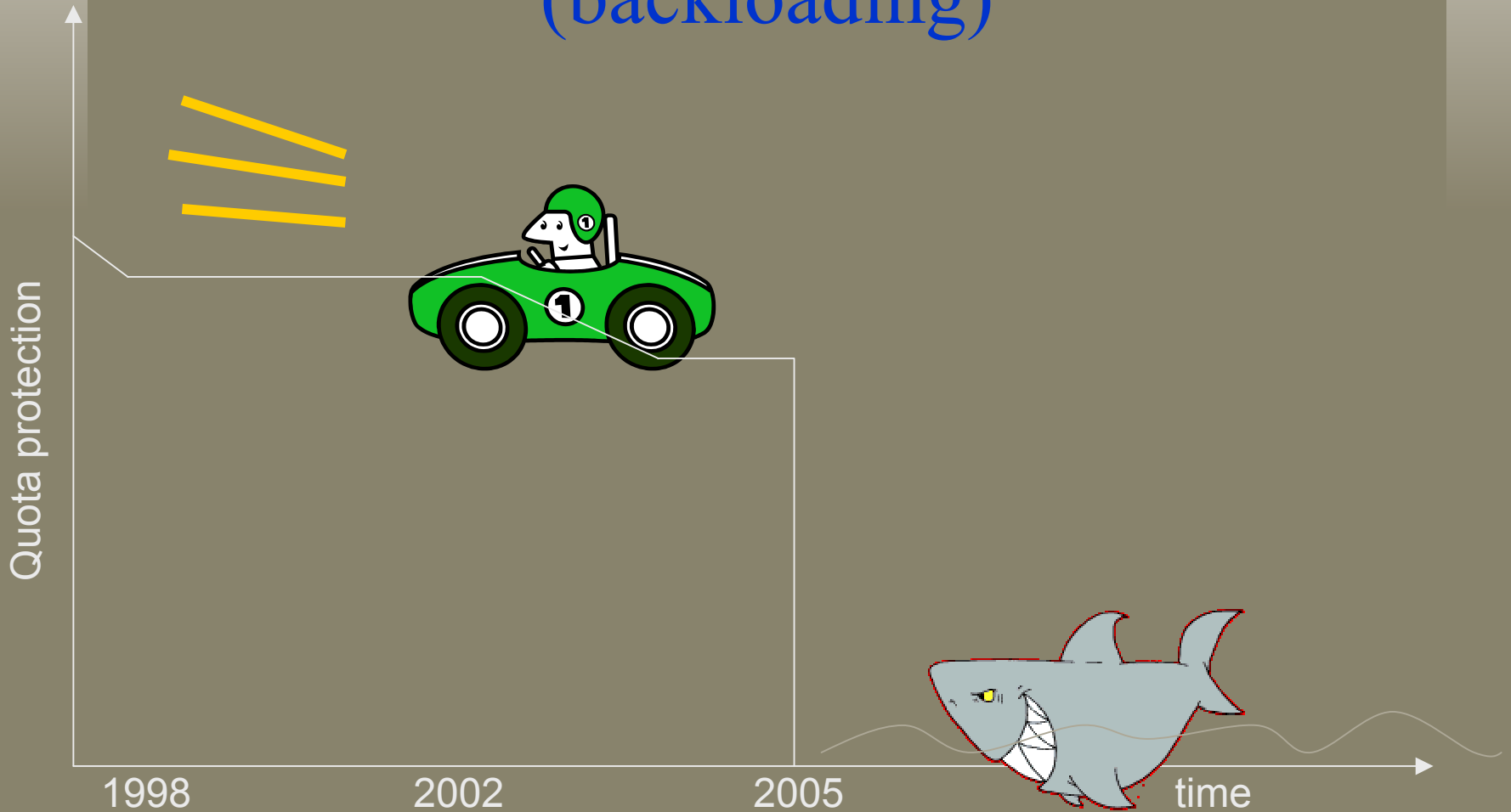


USA

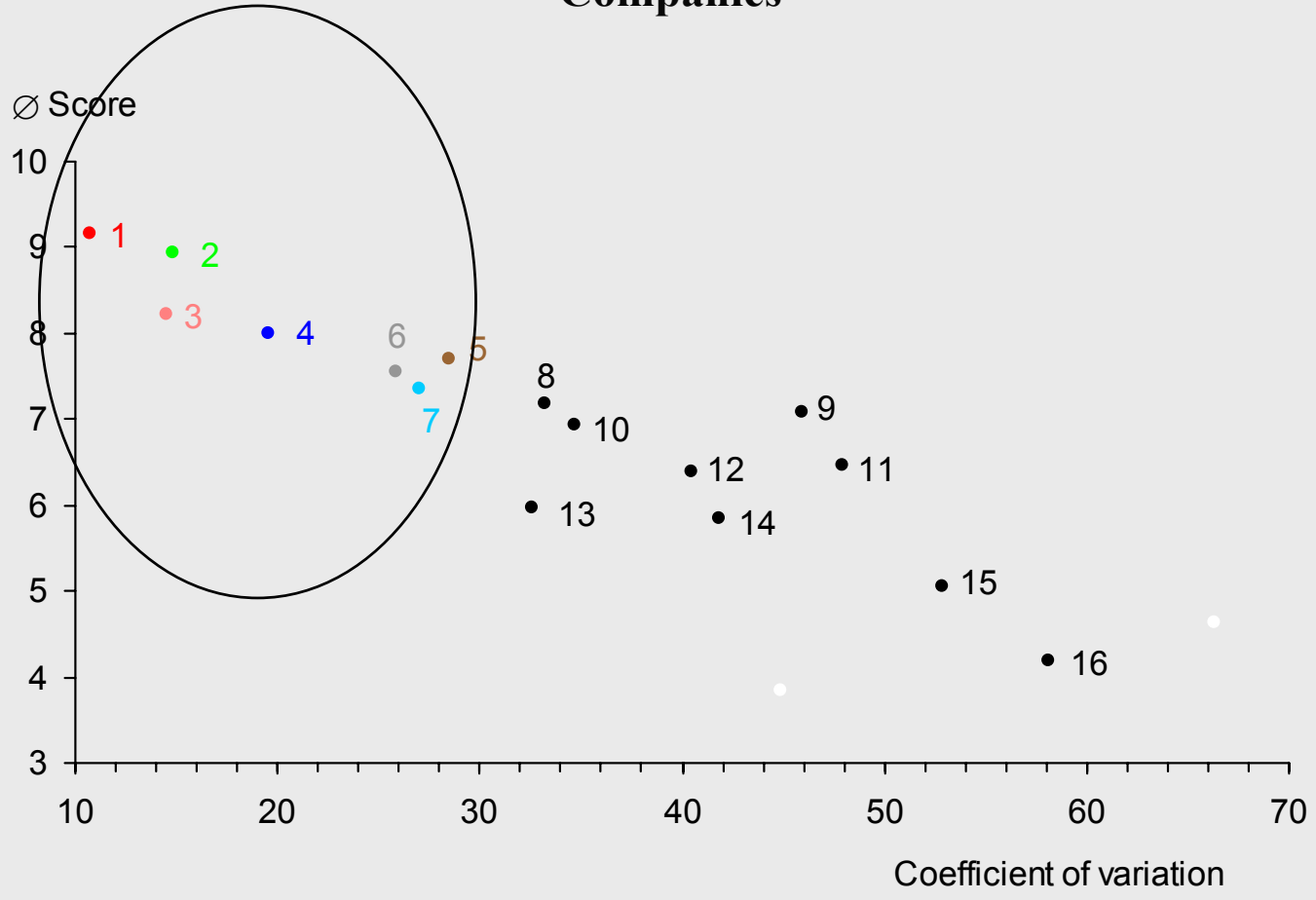




# A trap set by past politicians (backloading)



**Diagram 5 — Average Score ( $\bar{X}$ ) and Coefficient of Variation (CoV) on Ratings of Questions Re. Production and Investment for 14 Hong Kong T&C Companies**



# Ranking of Factors Influencing Investment/Production Decisions

	Ø	CoV
<b>1 Availability of quotas in host country</b>	<b>9.15</b>	<b>10.78</b>
<b>2 Politics and stability in host country</b>	<b>8.93</b>	<b>14.87</b>
<b>3 Transport infrastructure quality in host country</b>	<b>8.21</b>	<b>14.47</b>
<b>4 Telecom infrastructure quality in host country</b>	<b>8.00</b>	<b>19.61</b>
<b>5 International trade/investment policies</b>	<b>7.71</b>	<b>28.50</b>
<b>6 Labor costs</b>	<b>7.54</b>	<b>25.82</b>
<b>7 Education and training of workers</b>	<b>7.36</b>	<b>26.98</b>
8 Policies affecting labor, health and environment	7.18	33.19
9 Potential for exports to USA	7.07	45.90
10 Lack of restrictions on capital/profit transactions	6.93	34.65
11 Potential new customers/new markets	6.46	47.96
12 The "culture" of host country	6.39	40.49
13 Potential for exports to EU	5.96	32.63
14 Host government tax policies/incentives	5.85	41.81
15 Availability of ready-made factory units	5.05	52.90
16 Potential for exports to region	4.18	58.17

## HKG: Impact of China WTO Accession by Sector: % Change

Sector	Post ATC	Post China	Total
Textiles	2.7	-12.0	-9.4
Clothing	8.3	-15.0	-6.7
Motor veh.	-1.7	2.6	0.9
Electronics	-0.9	3.4	2.4
Transport Ser.	-0.4	0.6	0.2
Fin/ins/r-est.	-0.4	0.2	-0.2
O. comm. ser.	-0.6	1.1	0.6

## PRC: Impact of China WTO Accession by Sector: % Change

Sector	Post ATC	Post China	Total
Textiles	13.9	32.0	45.9
Clothing	50.3	75.5	125.7
Motor veh.	-4.1	-36.7	-40.8
Electronics	-5.1	-3.9	-9.0
Transport Ser.	-1.9	-2.0	-3.9
Fin/ins/r-est.	-0.7	-0.4	-1.1
Oth. com. ser.	-0.8	-5.9	-6.3

## CTP: Impact of China WTO Accession by Sector: % Change

Sector	Post ATC	Post China	Total
Textiles	5.6	1.3	6.7
Clothing	-12.4	-23.4	-35.8
Motor veh.	-0.6	-26.5	27.0
Electronics	-0.5	3.8	3.3
Transport Ser.	0.2	0.7	0.9
Fin/ins/r-est.	0.2	-1.0	0.9
Oth. com. ser.	0.2	-2.5	-2.3

## Summary and Conclusions

Hong Kong profits, but the size is more nominal than what was perhaps expected. In PRC the T&C sector virtually explodes.. drive developments... motor vehicles, primary/nonferrous metals & primary steel tank. Major restructuring only possible if other countries hold back on contingent protection measures over 15 years.

Chinese Taipei is comes off +/-0, even if exports do increase noticeably. But here is the big if: What if trade and transport ties all allowed to be carried out without restrictions....then the benefits would definitely be larger....but HKG would suffer due to loss in trade and value added services. In other words, the accession to the WTO is one step...to fully tap this potential normal trade and transportation ties would need to be established.



.... May the Long March Have  
Come to an End

**HERE'S**

**TO**

**THE**

**ACCESSION!!!**

**THE END**

ANY QUESTIONS, COMMENTS,  
**KUDOS** OR EVEN CRITICISM????

**THANKS FOR STAYING AWAKE!!!**

# The ATC: Where Are We Now?

Liberalization has so far been a **FARCE**

Final tranche 2004: only sensitive products

Faking liberalization + finagling protection

Of course, guidelines were not precise

But motto was: Mañana is better than now