

Cooperation in Northeast Asia and China's Entry into the WTO

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I really do feel an affinity with Niigata. For the last ten years, I have been involved in work relating to UNDP-led cooperation in the Tumen River area. In that time, I have frequently heard the name 'Niigata'. At that time, I felt that Niigata had a big role to play in international economic cooperation projects. This is my first visit to Niigata, so I expressed my wish to see the sea to the ERINA representatives accompanying me. When I went to see the sea yesterday, the weather was not very good, so I could not see very far, but in my heart I could see the China, Russia, the ROK, the DPRK and Mongolia on the continent. In addition, I developed a deep understanding of the fact that, due to the geographical conditions of Niigata, the people of Niigata Prefecture, particularly its politicians, such as Governor Hirayama, are putting a great deal of effort into economic cooperation with Northeast Asia. Making use of this opportunity, I would like to express my profound respect for Governor Hirayama and the other Niigata leaders who, for many years, have been supportive of economic cooperation in Northeast Asia and have promoted related activities.

Furthermore, as a Chinese citizen, another reason for feeling a great affinity with Niigata is that it was the home of former Prime Minister Kakuei Tanaka. Of all Japan's politicians, Mr. Tanaka is probably the best known among the Chinese people. This is because thirty years ago, Mr. Tanaka, along with a number of Chinese politicians, made a significant breakthrough in relations between the two countries. This year, the 30th anniversary of the normalization of diplomatic relations, we deeply commemorate Mr. Tanaka. The thing that we most admire him for is the political courage that he displayed. As we undertake economic cooperation in Northeast Asia today, we are confronted by many challenges, but if we display the kind of political courage and spirit of resolved shown by Mr. Tanaka and the previous generation of Chinese politicians, with the development of economic cooperation in Northeast Asia, we can overcome all the difficulties that we face and raise economic cooperation in Northeast Asia to a new level.

Today, the globalization of the world economy and inter-regional economic cooperation are developing rapidly. The question of how to respond to the globalization of the economy presents the countries of the world with an important choice. For China, the globalization of the economy is the trend of an historic age, a path that cannot be avoided and a phenomenon in which all countries must participate. Armed with this knowledge, the Chinese government stands in a strategic position, and has made an important decision to participate actively in economic globalization. Last year, 15 years of effort culminated in China joining the WTO. China's entry into the WTO can be

said to be the preparatory stage for China's active participation in globalization and inter-regional cooperation.

In the process of joining the WTO, China had to make two important preparations, in order to participate actively in the globalization of the economy.

The first was to consent to obeying the rules that apply internationally. Furthermore, China had to establish a socialist market economy system as the basis for the rules. In order to participate in economic globalization, all countries and regions should undertake projects under the same laws and regulatory structures. Among these same laws and regulatory systems, we can at last safely undertake effective international economic cooperation. This is the reason why China, in the application process for joining the WTO and after joining, will obey these internationally applicable rules. With regard to this aspect, the Chinese government is carrying out the following initiatives.

Firstly, it is carrying out a thorough consolidation of current economic and trade-related laws and regulations on a large scale, from the central government right down to local governments. Many outdated economic and trade laws that did not conform to WTO rules have been abolished. Moreover, based on the promises made when it joined the WTO, China has revised many of its economic and trade laws. In addition to this, in order to participate actively in activities pertaining to the globalization of the international economy, it has established new laws. The most important work to be carried out with regard to China's entry into the WTO was to consolidate and reform its own laws. It abolished the things that should have been abolished, revised those things that ought to have been revised, and established those things that needed to be established. By such means, China is trying to forge economic laws that accord with WTO regulations and internationally applicable rules.

Secondly, we are making valiant efforts to increase the transparency of our laws. The level of transparency of laws affects the economic and trade system environment and the legal environment in that country. When China joined the WTO, it consented to make public all economic laws it enforced thereafter, without fail, and it was decided that laws not made public would not be enforced. By means of this, China has ensured an end to the past era of non-transparent laws, forever. Internal laws will never again exist. Many investors were hindered by and suffered as a result of these internal laws.

Thirdly, China is trying hard to ensure that its economic and trade policies can be implemented in a unified fashion throughout the country. This is because some local governments previously established some

regional laws that did not conform to central government laws or WTO regulations. Under the current consolidation, the central government has requested that all local governments abolish regional laws that do not conform to central government laws or WTO regulations, and to cease their enforcement. By means of this decision, the situation of "even if there is a central policy, there is a regional countermeasure", which existed for many years, can be solved. These non-transparent laws have been a source of distress and trouble to foreigners.

Fourthly, illuminated by the WTO rules, China is further consolidating the orderliness of its market. At present, the country is making efforts to clamp down on such activities as smuggling and tax evasion, and on the seepage of fake goods onto the market. It is also doing away with laws, such as those relating to the protection of intellectual property, which run contrary to the WTO or international treaties. In addition, in developing the investment environment, the government is working to eliminate non-canonical administrative methods with regard to foreign-affiliated companies, such as the arbitrary levying of charges. All these initiatives are designed to develop a highly-transparent, stable and foreseeable regulatory system.

The second thing to which China consented when it joined the WTO, in order to participate in the economic globalization process, was the gradual liberalization of its markets, in line with its duties. As you are no doubt aware, with regard to economic globalization, opening up the Chinese market is of extreme significance. In one sense, economic globalization is an adjustment of the industrial structure on a global scale. This structural adjustment of industry is not something that can be undertaken by a single country, and it certainly is not something that can be tackled by a single province, such as Liaoning or Jilin. Nor is it within the scope of Niigata Prefecture to tackle. This is industrial restructuring on a global scale.

Along with the increasing development of the economy, it is also necessary to adjust the industrial structure. Consequently, as the leaders of national and local governments from each country participate in economic globalization, they are confronted by the issue of carrying out industrial restructuring on a global scale. We need to consider matters on a global scale. After coming to Japan, a colleague from the Chinese embassy showed me an article from the January 6th edition of the *Nihon Keizai Shinbun*, written by Governor Hirayama. In this article, he touched upon the issue of structural adjustments in industry and indicated his thoughts on investment in China by some Niigata companies, which have moved their factories to China and other countries. I believe that this is the manifestation of economic globalization in Niigata Prefecture, in all but name. Furthermore, it is proof that Niigata's leaders are clearly aware of the worldwide tide of economic globalization. The globalization of the economy and the readjustment of the industrial structure on a global scale is a path that cannot be avoided. Moreover, politicians with foresight will confront this kind of economic situation and give consideration to economic development. I believe that Governor Hirayama's remark in the newspaper that "We will take advantage of Niigata's edge in terms of

human resources, and increase the region's industrial competitiveness", is the correct response to economic globalization. All politicians, when confronted by the tide of history, can only bring about further economic development and provide practical benefits for the people of their countries by courageously facing up to these challenges.

China is striving to liberalize its markets. It has carried out two tasks with regard to this:

One was a significant reduction in import tariffs. It decided to lower import tariffs from 43% in 1994 to the present level of 13%, and to reduce average tariffs to 10% by 2005. This is a significant reduction.

The issue of cars is receiving attention both domestically and overseas, so I would now like to refer to import tariffs on cars. From 2002, the import tariffs on cars, particularly those on small cars, will be reduced by half. In addition, the price of cars on the Chinese market has begun to decrease considerably from this year. The purpose of the decision to reduce car tariffs is to make Chinese automobile manufacturers engage in fair competition with manufacturers from other countries on a global scale, in an open environment. At the same time, it will alter the abnormal phenomenon whereby the Chinese car industry was protected for a long time and car prices were distorted. As you are doubtless aware, when Chinese people bought a car, they had to pay twice or three times more than a foreigner. To put it another way, automobile prices in China were twice or three times more expensive than on the international market. This is inexcusable and distorts the market. China's per capita GDP is rising; for example, per capita GDP in the Shanghai area has reached \$4,500, while that in Guangdong, Beijing and other regions has reached the \$4,000 mark. In other words, the era of personal car ownership is just around the corner. China's per capita level of car ownership is still low. According to one source, whereas car ownership in the USA is 75 vehicles for every 100 people, in China it is one vehicle for every 100 people. This is a huge gap. In the next five or ten years, I would like to see per capita car ownership in China increasing. If China's per capita car ownership rate rose to the level of developing countries such as Brazil, with a rate of 10 - 15 vehicles per 100 people, demand for cars in China would increase significantly. At present, there are 13 million cars in China, 1% of the 1.3 billion population. If that figure rose to 10 vehicles per 100 people, that would make 130 million cars. In order to achieve this, it is necessary to set prices at a level that the Chinese people can afford. This means that when China enters the era of personal car ownership, that is, when car ownership reaches 10 - 15 vehicles per 100 people, the Chinese economy will enter a new age. As a result, propelled by the development of the car industry, not only will supporting industries, such as steel, plastics and chemicals, grow, but many employment opportunities will also be created. According to some sources, service industries connected with the US automobile industry are responsible for 6.5% of all employment opportunities in the USA. This is due to the fact that, if the citizens of a country own many cars, various new service industries are bound to appear. These include car sales, maintenance, gas stations, loans, insurance and

car parking. Furthermore, once the Chinese people own more cars, as the country covers a vast area, the lifestyles of the inhabitants of urban areas will alter significantly. People will move from the extremely crowded central areas to the suburbs, so the suburban real estate industry and various service industries will develop. This may well signal the arrival of an extremely important new economic era. Consequently, if the Chinese people are enabled to own more cars, it will provide more employment opportunities for them. If we say that there are 100 million employment opportunities at present, and if these grow at the same 6.5% as in the USA, there will be an increase of 6.5 million employment opportunities. Therefore, in order to link the price of cars in China with their price on the international market and to make the car industry internationally competitive, China needs to open up its automobile industry. China's economic strategy and economic development will be indispensable in this. This is because China has taken the highly strategic stance of participating in economic globalization, is thinking about the issue of opening the country up to external competition and has decided to undertake far-reaching liberalization of the automobile industry. There are many other fields requiring liberalization; for example, with regard to the IT industry, we decided to participate in the WTO treaty on information technology merchandise, implementing a zero rate of tariffs across the board on more than 200 important IT products. Consequently, China's IT industry will become an important component of the global IT industry.

When China joined the WTO, it consented to liberalize its service industries as quickly as possible, including the banking, insurance, telecommunications, tourism and transport sectors, as well as specialist services, such as legal services, accountancy and advertising. The purpose of liberalizing these industries is that we want to turn important national industries clinging to life into internationally competitive industries. The past 20 years or more of reforms and liberalization are proof that international competitiveness is stronger in industries that opened up to external competition earlier. China's consumer electrical appliance industry corroborates this. By adopting liberalization measures, it is hoped that service industries such as the banking and insurance, telecommunications and tourism sectors will grow to be top-flight internationally competitive industries in a similar fashion. Furthermore, amid the development of these liberalized industries, the opportunity for the birth of many medium- and high-income classes has been created. The banking, insurance and telecommunications sectors will provide us with many such opportunities. Consequently, the scope for China's most talented and knowledgeable people to be very active will broaden. To summarize, China's entry into the WTO means that its opening up to external competition has entered a new phase. In addition, it signifies that China will tackle economic globalization and regional cooperation, taking an even more active stance.

Naturally, after joining the WTO, at the same time as fulfilling its obligations, China is also enjoying some new rights. The most obvious is that, in joining the WTO, the issue of having to apply for Most Favored Nation (MFN)

status in trading with the USA, which was a problem over many years, has been solved and normal trade relations established. The USA's annual deliberations on China's MFN status was the thorniest of issues in the Sino-US economic and trade relationship, which also influenced China's standing in the world economic and trade regime. By joining the WTO, China solved the problem of the permanent normalization of the USA's trade relationship with China in one fell swoop. President Bush announced that he would cease the annual review of China's MFN status from January 1st this year. This can be said to be the first major achievement China has attained since joining the WTO.

Since entering the WTO, foreign investment in China has been escalating, as a result of improvements to the legal and investment environments. Last year, investment reached an all-time high, totaling \$46.8 billion. This was an increase of 15%, despite last year's harsh international situation. This growth was unprecedented throughout the world. China is enjoying the important fruits gained as a result of WTO membership.

At the same time as taking part in the globalization process, China has been active in its participation in regional economic cooperation since joining the WTO. On this side, the Chinese government has been undertaking various important activities, several examples of which I would like to introduce here. Firstly, talks with ASEAN regarding the creation of a free trade agreement have officially begun. In addition, it has begun discussions aimed at implementing substantial cooperation with the Central Asian republics belonging to the Shanghai Cooperation Organization. Furthermore, China is developing a detailed plan aimed at substantial cooperation with the countries of the Mekong Delta. China can be said to be participating in regional cooperation on all fronts. In particular, cooperation with neighboring countries is being promoted. Similarly, we wish to take an active stance on participation in regional cooperation in Northeast Asia. Of course, we should be aware that, in some respects, cooperation in Northeast Asia is lagging behind that in other regions. Consequently, we should strengthen support for economic cooperation in Northeast Asia, at the same time as increasing the pace of economic cooperation in the region. I would like to make a few suggestions with regard to this.

Firstly, strengthening support for economic cooperation in the region among the governments of Northeast Asia, particularly the central governments. I believe that, without the support of central governments, it will be difficult to achieve major advances in regional cooperation, especially in economic cooperation. The proposal regarding a free trade agreement between China and ASEAN emanated from and was decided by government leaders. In addition, the Shanghai Cooperation Organization is the outcome of issues raised among government leaders and cabinets, in a similar fashion. The support of central governments is necessary for such regional cooperation. Consequently, it is hoped that related central governments will provide more support for Northeast Asian regional cooperation. With that, we will be able to ensure for the first time that cooperation-related

activities in the region develop within a firmer framework.

Secondly, continuing to draw out further the enterprising spirit of each country's local governments. By means of the positive attitude of local governments, economic cooperation in the region will become more substantial. Taking the economic and trade advantages of each region as a point of departure, as local governments are aware of each other's demand and competitive edge, the regional economic cooperation plans proposed by local governments are the most realistic measures, with considerable potential. Consequently, in order substantially to develop economic cooperation in Northeast Asia, it is necessary to bring forth the spirit of enterprise of each local government to the greatest possible degree. As you know, leaders from China's three northeastern provinces have brought delegations to participate in this conference. In addition, the foodstuffs exhibition and business talks are taking place in Niigata with the aim of substantially promoting economic cooperation in Northeast Asia. Consequently, bringing forth the spirit of enterprise from local governments, such as those of Niigata Prefecture and Niigata City, is of great significance in yielding substantial results from economic cooperation in Northeast Asia.

Thirdly, it is necessary for the national governments of each country in the Northeast Asian region to focus more on the role of international institutions. In contrast to other regions, Northeast Asia encapsulates diversity in terms of political systems and various other aspects. Consequently, in developing cooperation in the region, as there are politically and diplomatically sensitive areas, under such conditions, bringing forth the role of international institutions is important and has a special significance. The Tumen River Area Development Programme (TRADP), in which I have participated, is being undertaken under the initiative of, and supported by, the UNDP. In the field of Northeast Asian regional cooperation, particularly TRADP, the UNDP is fulfilling a unique role. Therefore, it is necessary to emphasize and strengthen to the greatest possible degree the role carried out in this area by international institutions, particularly UN-related bodies. I hope that Northeast Asian governments, particularly central governments, will provide such projects as the UNDP's TRADP, with greater support.

Fourthly, it is necessary to bring forth the strength to promote private-sector economic cooperation in Northeast Asia. In those areas where central governments are not undertaking across-the-board initiatives with regard to the Northeast Asian region, businesses, experts and academics have the ability to promote these and can take advantage of their unique role. At times, this conference in Niigata may not produce any concrete results, which may be disheartening, but I believe that this conference fulfils an important role, which we ought actively to value. I do not think that research into economic cooperation in Northeast Asia is just an impractical idea. Research is extremely

important. As is often said, politicians decide when to act, but experts and businesspeople can decide what is to be done and how to do it. Furthermore, when the political environment has been put in place and has ripened, the results of research by experts and businesspeople will allow governments to spring straight into action. I believe that the fruits of such research are the basis for implementing activity. If these foundations do not exist, even if political judgments are made, governments will not know what should be done. Therefore, before politicians make decisions, it is important to put this kind of foundation in place.

China's attitude towards Northeast Asian economic cooperation is positive. As you are aware, each country in Northeast Asia has a positive attitude to opening up their markets to foreign competition. Last year, China officially joined the WTO, a sign of its determination to participate actively in international economic cooperation. Russia has also begun negotiations with a view to joining the WTO, and China hopes that Russia will be able to join the WTO at an early stage. If Russia realizes membership of the WTO as well, regional cooperation in Northeast Asia will be able to develop at an even higher level, on an equal footing. China and Russia are important entities as far as this region is concerned.

In terms of the economy and trade, mutual dependence between the nations of Northeast Asia is growing. With regard to China's external trade in 2001, which took place against the background of an extremely trying external environment, trade with Japan rose by 5.5%, a record high in terms of Sino-Japanese trade. For nine consecutive years, Japan has been China's largest trading partner. Furthermore, China is Japan's second largest trading partner. Despite an adverse situation, Japanese investment in China rose by 40%, an all-time high. According to some sources, despite the slump in Japan's external trade and the fact that exports from Japan to countries and regions across the globe decreased in 2001, exports to China grew by 16% and those to Russia by 41%. From this we can see how important regional trade with Northeast Asia is for all the countries of the region.

I have confidence in the future of this region. Today, with economic globalization and development advancing, if the countries of Northeast Asia open up further, have a more positive attitude and participate in regional economic cooperation, embrace a new way of thinking and expand into new fields, regional economic cooperation will grow and substantial, concrete cooperation will develop gradually at every level. Furthermore, I believe that the future is bright. Economic cooperation in Northeast Asia has advantages not only for the people of the region and the region's economic development, but also for economies throughout the world.

[Translated from the Chinese by ERINA]