China-US trade deal to "restructure" Chinese economy

Nick Beams
16 November 1999

The trade agreement between China and the United States, signed in Beijing on Monday after six days of intensive negotiations, will unleash the most far-reaching changes in the Chinese economy since the “reform and open door” policy initiated by the Stalinist bureaucracy in 1978.

The agreement, which came after 13 years of negotiations, paves the way for China's entry to the World Trade Organisation and provides major opportunities for US companies in agriculture, industrial goods, autos, telecommunications, Internet services, banking and finance.

The social consequences will be profound. Analysts are already predicting that millions of workers employed in agriculture and in the more than 7,000 state-owned enterprises (SOEs) will be made redundant as the Chinese economy is increasingly dominated by transnational corporations and financial institutions.

Under the terms of the agreement US companies will secure market access to whole areas of the economy to which they were previously denied.

Telephone companies, at present restricted to sales of equipment, will now be able to own up to 49 percent of all telecommunications services upon China's entry to the WTO and up to 50 percent two years later. Foreign firms will also be able to invest in Internet companies, including content providers, from which they were previously barred.

Manufacturers will be able to export without the intervention of government bodies and sell directly in China's markets as well as handling after sales service, repairs and maintenance.

US banks will be able to lend to Chinese businesses in local currency two years after China joins the WTO and to individuals five years after joining.

Car companies will have full distribution and trading rights with tariffs reduced from their present levels of 80 to 100 percent to 25 percent by 2006. The provision of credit to finance auto purchases will also be permitted.

Tariffs on agricultural products will be reduced sharply to around 14 percent, and China will eliminate all export subsidies.

Foreign firms will be allowed a 33 percent stake in all securities fund management joint ventures, rising to 49 percent three years after China joins the WTO.

The agreement on the lucrative telecommunications industry is regarded as particularly significant because it was the outcome of a bitter six-month struggle within the ruling Chinese state bureaucracy.

Last April in discussions in Washington, Chinese Premier Zhu Rongji was on the point of signing an agreement with the US when the Clinton administration repudiated the deal at the last minute. Zhu was severely criticised for failing to secure the deal and for offering too many concessions to the US in return for WTO entry.

One of the major sticking points was Zhu's offer to allow 51 percent foreign ownership of the telecommunications industry, with the main opposition coming from Wu Jichuan, the head of China's Ministry of Information. But with the entry of President Jiang Zemin into the negotiations, a deal was reached which essentially met US demands for majority control.

Another area of vital concern to the US is agriculture. Speaking to a press conference on Monday, US Trade Representative Charlene Barshefsky said that overall tariffs would decline to about 17 percent, which she described as “an extremely good figure.”

“With respect to agriculture, tariffs will decline sharply to roughly 14.5 or 15 percent. In that range, there will be very significant liberalisation in the agricultural sector including, most importantly, with respect to bulk commodities: corn, wheat, cotton, soybeans—what we view as the big-ticket items. China will also not provide export subsidies. This is very important in the fields of cotton, rice, and some other areas."

Apart from a minor adjustment to the ownership percentage in the telecommunications industry, the US appears to have made few, if any, concessions to Chinese demands. Barshefsky noted that in the negotiations last April China had insisted that there had to be a phasing out of anti-dumping provisions invoked by the US against cheap imports. However under the agreement, the so-called "anti-import surge rule" will remain in place for the next 12 years with the application of "special anti-dumping methodology" to continue for the next 15 years.

The chief US trade negotiator was particularly enthusiastic about the provisions of the agreement which allow US entry into the Chinese capital market and enhance its position against potential rivals.

"On the question of securities," she told the press conference, "our main goal had been to insure that the Treasury Department in particular would have a forum in which to consult with China on the development of its securities market, which... is very underdeveloped. While China typically turned to Hong Kong regulators for advice, and of course they are excellent regulators, we and particularly the Treasury Department, were very anxious to be able to participate in this kind of formulation of regulations and the development of capital markets generally in China, including with respect to market access in the future."

Following the visit to China by US Treasury Secretary, Larry Summers, she continued, a "capital markets dialogue has now been established to cover the totality of banking issues as well as securities and regulatory issues."

In other words, Wall Street and its political representatives will have a direct say in determining the structure of the Chinese financial system.

The agreement to allow the entry of foreign banks, with the same rights as Chinese banks in all areas of the country, will have far-reaching consequences. In particular, it will mean that Chinese banks, which are the major source of finance for SOEs, will face increased competition from their more powerful rivals and will be forced to liquidate the bad debts of the SOEs in order to remain competitive. As a result hundreds, if not thousands of such enterprises may be starved of funds and forced to close.

Another crucial area of concern to the US, described by Barshefsky as a "top priority for us", was the Internet. This was "no longer an issue" as the US now had "rights of investment."

Under the terms of the agreement the US is committed to working to secure Chinese entry to the WTO "as soon as possible". The deal has still to go to the US Congress where there has been considerable opposition from sections of the Republican Party. But with the powerful backing of US business it is expected to go through.

The Dow Jones newswire service reported that US businesses in China "expressed delight" at news of the deal and predicted more US investments in the country. According to John Sullivan, vice chairman of the American Chamber of Commerce in China, the implementation of WTO rules would "reduce many of the distribution and regulatory hardships" presently faced by US companies and would provide "more growth potential for American companies."

But Chinese workers and peasants face an entirely different prospect. Whole sections of agriculture will be unable to compete, increasing the movement to the cities in search of work, while millions of workers in the SOEs could lose their jobs.

Pointing to the long-term implications of the agreement, Professor Mark Frazier of the US National Bureau of Asian Research told the *Australian Financial Review*: "The real significance of China's participation in the WTO lies not in the short-term benefits that might accrue to corporations in specific sectors but in the restructuring of China's economy over the next decade."

That "restructuring" is going to bring Chinese workers into direct conflict with the same transnational corporations, banks and financial institutions whose relentless drive for markets and profits has created such turmoil in the lives of their counterparts in all the major capitalist countries.