

# **Assessment of the Economic Effects on the United States of China's Accession to the WTO**

## **Executive Summary**

Investigation No. 332-403

A Summary of the Report to the United States Trade Representative on  
Investigation 332-403 Under Section 332(g) of the Tariff Act of 1930

**Publication 3228**

**August 1999**

**U.S. International Trade Commission**



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# **EXECUTIVE SUMMARY**

## **Assessment of the Economic Effects on the United States of China's Accession to the WTO**

On December 18, 1998, the U.S. Trade Representative (USTR) asked the U.S. International Trade Commission (USITC) to prepare a report assessing the probable economic effect on the United States of China's accession to the World Trade Organization (WTO). The USTR requested that the USITC use formal economic analysis to provide, to the extent possible, a quantitative assessment of the effects on the U.S. economy of China's WTO membership, specifically in reference to possible reductions in China's tariff and non-tariff measures and to China's participation in the WTO Agreement on Textiles and Clothing. In supplemental requests from the USTR on May 5, 1999 and June 16, 1999, the Commission was also asked to analyze the specific tariff and market access offers respectively, made by China in April 1999 in the context of its WTO accession negotiations.

In responding to this request, the USITC has used a combination of analytical techniques. Because the necessary data were available, the USITC was able to conduct a quantitative analysis of the effect of various tariff reductions, including China's April 1999 tariff offer, on both the U.S. and Chinese economies. This analysis was developed using a multi-country economic model with economy-wide coverage of merchandise and service sectors, *i.e.*, a global computable general equilibrium model, described in this study as the China-WTO model. The model attempts to isolate and measure the effects of the tariff reductions on the U.S. and Chinese economies by comparing the actual state of the economy with what it would have looked like if the tariff reductions had been in place. The China-WTO model was also used to estimate the impact of removing import quotas on textiles and apparel from China in the context of the WTO Agreement on Textiles and Clothing.

Because the data were not available in the time provided for this study, the USITC was, for the most

part, unable to quantify through formal economic analysis the effect of reductions in China's non-tariff barriers (NTBs). Instead, a qualitative analysis of such reductions is provided. In these cases, input from other sources is used to assess the likely economic impact.

Through this combination of analytical techniques, the report attempts to provide a more complete and balanced picture of the effect of China's WTO accession than would be offered by either approach in isolation. A global CGE model, such as the China-WTO model, which estimates not only the static effects of the proposed tariff cuts but also accounts for the growth effects of such trade reductions is the best economic tool available for estimating the impact of the tariff aspects of China's WTO accession. However, given the significance of NTBs in China's trade policy regime, the inability to fully quantify the impact of their removal imposed limitations on the quantitative results offered by this study. The effects resulting from NTB changes are found primarily through the qualitative approach.

Many sources of information were consulted for this analysis. Data were obtained from an economic literature review, from USITC contacts with the U.S. private sector, the U.S. Department of Commerce, the United Nations, the International Monetary Fund, the Institute for International Economics in Washington D.C., the International Textiles and Clothing Bureau in Geneva, Switzerland, the World Trade Analyzer database of Statistics Canada, the Global Trade Analysis Project database, the U.S.-China Business Council, and the China Statistical Yearbook produced by China's State Statistical Bureau. A public hearing for this investigation was held on February 23, 1999. Testimony from the hearing, pre- and post-hearing statements, and written submissions also provided useful information on Chinese non-tariff barriers,

trade-related investment measures, and service sectors, and was integrated into this report.

## **Overview of China's Trade and Investment**

To examine the overall impact on the U.S. economy of China's accession to the WTO, this study begins by examining the current relationship between the economy of the United States and that of China; the nature of the trade patterns between the United States, China, and the rest of the world; and the nature of the changes that would be made in China if China makes all of the commitments necessary to accede to membership of the WTO.

China's economy has been growing rapidly in recent years. According to Chinese data, the compounded annual growth rate of real GDP in China exceeded 11 percent per annum over the period 1990-97. This growth has produced a very large Chinese economy with a Gross Domestic Product (GDP) of \$1 trillion or more. The World Bank reports China's 1997 per capita income on an exchange rate basis to be \$860 a year. This gives a total GDP of \$1.1 trillion, the world's seventh largest and about 14 percent the size of the U.S. GDP. Because the cost-of-living in China is so low, the size of China's economy as measured on a purchasing-power-parity (PPP) basis is much larger than when measured on an exchange rate basis. On a purchasing-power-parity basis, China's per capita income is reported at \$3,570 and its total GDP at \$4.4 trillion. On this basis, China is the world's second largest economy, about 57 percent the size of the U.S. economy.

Despite the large size of China's economy and the significant amount of trade occurring between the United States and China, U.S. merchandise trade with China remains small relative to the overall size of the U.S. economy. Total U.S.-China trade in 1998 was estimated at \$84.7 billion using U.S. trade data, which is less than 1 percent of the U.S. GDP. Chinese data would indicate a smaller figure, due largely to the fact that China excludes goods passing from China through Hong Kong and then to the United States from its total figures on exports to the United States. Either figure, however, would leave our total trade with China as accounting for a small percentage of our overall GDP.

China's trade, both with the United States and with the rest of world, has grown rapidly in recent years. Overall, the gross volume of China's merchandise trade grew from \$21 billion in 1978 to \$324 billion in 1998. After running trade deficits for most of the

1980s, China's merchandise trade balance with the world moved toward surplus in 1990, and has grown to over \$43 billion in 1998. Moreover, the composition of China's trade has also shifted sharply from primary products to manufactures over the last 20 years. By 1997, approximately 87 percent of Chinese exports and 80 percent of Chinese imports consisted of manufactured goods. China's key exports include apparel, footwear, toys, games, sports equipment, and leather products. Key imports into China include aircraft, spacecraft, electrical machinery, fertilizer, and non-electrical machinery.

This study starts with these and other key factors about the U.S. and the Chinese economies and world trade patterns and then examines what changes would occur should China join the WTO. Accession to the WTO will require numerous policy changes in China, including significant reductions in China's tariffs, the removal of non-tariff barriers that currently impede U.S. exports to China, the opening up of China's service sector, the further protection of intellectual property rights, and the elimination of many barriers to trade in agricultural products. Because the United States is already a member of the WTO, the United States will not have to make any changes to its tariffs or other trade policies as a result of China's accession to the WTO, except for the application of the WTO's Agreement on Textiles and Clothing's phase out of quotas on textile and apparel imports. As such, the vast majority of the results presented reflect changes that must occur in China's economy and trade patterns, since it is China, and not the United States or the rest of world, that will be required to make significant changes as part of the process of acceding to the WTO.

## **Summary and Findings Regarding China's WTO Accession**

### ***Effects on the U.S. Economy of the Removal of China's Non-Tariff Barriers***

The results of the qualitative analysis of the removal of China's non-tariff barriers (NTBs) show that U.S. exports to China and U.S. foreign investment in China are likely to increase as a result of the removal of NTBs in the context of China's accession to the WTO. Chinese NTBs operate as part of an industrial policy aimed at achieving economic development of specific industry sectors. Combined

with high tariffs, they overlap and serve as a web of protection for those industries that China desires to develop to maintain self-sufficiency in the Chinese economy. Given this policy approach, it is difficult to isolate the effect of an individual barrier or the impact of removing one relative to another.

Taking into account China's April 1999 offer, the study examined a broad array of NTBs, including licensing, quotas, tendering, transparency, national treatment, judicial review, state trading, offsets, and transfer and protection of technology and restrictions on many individual industries' operations. Further, this analysis assesses the effects of several trade-related investment measures, including export performance requirements, local content requirements, and trade and foreign exchange balancing. The

assessment is based on input received from industry and a review of the relevant literature.

As noted earlier, the study's analysis of the impact of NTB removal is primarily qualitative because of data limitations. However, in conjunction with an analysis of a hypothetical 50 percent cut in China's tariffs, the study found that the elimination of NTBs in 25 products, covering only 30 percent of China's imports, had a significant impact, effectively doubling the impact of the tariff reductions on such variables as growth in U.S. GDP and improvement in U.S. terms of trade. While these results cannot be generalized, they do give some measure of the restrictive effect of these non-tariff barriers.

A summary of the effects on U.S. trade and investment is presented in table ES-1 below.

**Table ES-1**  
**Summary of the effects on U.S. trade and U.S. foreign investment of removing certain Chinese non-tariff barriers as a result of China's accession to the WTO, including China's April 1999 offer**

Chinese non-tariff barrier	Sectors affected	Effects
<p><b>Licensing and quotas</b></p> <p>License-permission to import a particular product given by the government to importers and issued in the form of a license.</p> <p>Quotas-quantity limits on imports set by the government.</p>	<p>Pillar industries, such as grains, cotton, chemicals, motor vehicles, consumer electronics, cameras, and certain other products.</p>	<p><b>Trade:</b> Increased U.S. export opportunities and reduced trade costs in fees and time. For some sectors, potential benefits may depend on Chinese Government industrial and agricultural policies, as well as the role of state trading enterprises.</p> <p><b>Investment:</b> Little or no increase in U.S. investment opportunities. Licensing and quotas were used to protect Chinese industry from imports and in order to access the Chinese market, foreign companies would invest in manufacturing in China. With these barriers removed, the incentive to invest in China because of these barriers is significantly reduced.</p>
<p><b>Tendering</b></p> <p>A centrally administered procurement process that lacks transparency, is non-competitive, and may be used to limit imports.</p>	<p>Selected machinery and electronics.</p>	<p><b>Trade:</b> Increased U.S. export opportunities due to the competition process becoming more transparent and less controlled. Potential benefits may, in part, depend upon the extent to which Chinese state-owned and state-invested enterprises operate in a commercial manner, as China has committed to in its April 1999 offer.</p> <p><b>Investment:</b> Little or no increase in U.S. investment as U.S. exporters realize that they are not constrained to produce in China in order to gain an advantage in the tendering process.</p>

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**Table ES-1—Continued**

**Summary of the effects on U.S. trade and U.S. foreign investment of removing certain Chinese non-tariff barriers as a result of China's accession to the WTO, including China's April 1999 offer**

Chinese non-tariff barrier	Sectors affected	Effects
<b>National Treatment</b>  Treating imports on the same basis as domestic products and services.	All sectors.	<p><b>Trade:</b> Increased U.S. export opportunities as mandates for local products are eliminated. Potential benefits may, in part, depend upon the extent to which Chinese state-owned and state-invested enterprises operate in a commercial manner, as China has committed to in its April 1999 offer. In addition, benefits would also depend upon how China implements its industrial policies.</p> <p><b>Investment:</b> Increased U.S. foreign investment opportunities in China as foreign investors would be allowed to invest in more sectors of the economy.</p>
<b>Transparency</b>  Laws, rules, regulations, procedures, and the like readily available to interested parties.	All sectors.	<p><b>Trade:</b> Increased U.S. export opportunities as transparency in the government decision-making process improves—that is, as access to the applicable rules and regulations that govern the process improves and as the ability to observe whether the decision was made in accordance with those rules and regulations improves. This outcome assumes most decisions will be made in accordance with published rules and regulations.</p> <p><b>Investment:</b> Increased U.S. foreign investment opportunities due to the aforementioned reasons and assumptions with regard to trade.</p>
<b>Judicial review</b>  Impartial, independent, and accessible review and settlement of disputes.	All sectors.	<p><b>Trade:</b> Increased U.S. export opportunities due to bias removed from the system and improved transparency.</p> <p><b>Investment:</b> Increased U.S. foreign investment opportunities in China as investors gain confidence about operation of China's trade and investment regime.</p>
<b>State trading</b>  Import and export activities limited to either state enterprises or entities designated by the government.	Grains, tobacco, cotton, vegetable oils, sugar, alcoholic beverages, and petrochemicals, as well as rubber, timber, wool, acrylic, and steel.	<p><b>Trade:</b> Increased U.S. export opportunities likely as a result of state trading being liberalized in certain sectors and trading rights for distribution forthcoming. However, WTO enforcement of rules on state-trading enterprises has been low.</p> <p><b>Investment:</b> Negligible, since foreign investment is generally prohibited or limited.</p>

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**Table ES-1—Continued**

**Summary of the effects on U.S. trade and U.S. foreign investment of removing certain Chinese non-tariff barriers as a result of China's accession to the WTO, including China's April 1999 offer**

Chinese non-tariff barrier	Sectors affected	Effects
<p><b>Offsets</b></p> <p>Incentive payments used by the seller in order to secure procurement by the buyer. May take many forms, such as investment, technology transfer, co-production, barter, and countertrade.</p>	<p>Aerospace, automobiles, electronics, telecommunications equipment.</p>	<p><b>Trade:</b> Increased U.S. export opportunities, depending upon the degree to which voluntary collaboration replaces government-mandated offsets in sales.</p> <p><b>Investment:</b> Uncertain, since data are not available as to the current degree of investment due to government mandates or U.S. companies' desire to improve customer service or establish a presence in the Chinese market.</p>
<p><b>Transfer and protection of technology</b></p> <p>Official or unofficial rules and procedures to coerce transfer of technology. Official rules and mechanisms for the protection of intellectual property rights.</p>	<p>Manufacturing and processing industries.</p>	<p><b>Trade:</b> Increased U.S. export opportunities because the transfer of technology will be increasingly protected in accordance with international norms. This outcome assumes most decisions will be made in accordance with published rules and regulations.</p> <p><b>Investment:</b> Increased U.S. foreign investment opportunities in China as investors are not forced to transfer technology and China increases efforts to protect technology. This outcome assumes most decisions will be made in accordance with published rules and regulations.</p>
<p><b>Export performance requirements</b></p> <p>Government requirements stipulating minimum amounts of production that must be exported.</p> <p>Under China's April 1999 offer, China has agreed to go beyond the WTO Agreement on Trade-Related Investment Measures (TRIMS), which does not include export performance requirements.</p>	<p>Manufacturing, including aerospace, automobile, electronics, packaged foods, machinery, semiconductor, telecommunications equipment, and textile and apparel industries.</p>	<p><b>Trade:</b> Possible decrease in U.S. imports from China. However, U.S. companies may incur costs in reorienting their operations toward the Chinese market.</p> <p><b>Investment:</b> Increased U.S. foreign investment opportunities in China as export performance requirements may no longer influence the type of investment to be made in China.</p>

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**Table ES-1—Continued**

**Summary of the effects on U.S. trade and U.S. foreign investment of removing certain Chinese non-tariff barriers as a result of China's accession to the WTO, including China's April 1999 offer**

Chinese non-tariff barrier	Sectors affected	Effects
<b>Local content requirements</b>  Government mandates requiring that production incorporate certain amounts of domestic rather than foreign inputs.	Manufacturing, including aerospace, automobile, electronics, packaged foods, machinery, semiconductor, telecommunications equipment, and textile and apparel industries.	<p><b>Trade:</b> Increased U.S. export opportunities as foreign or domestic manufacturers in China may then purchase foreign inputs rather than domestic inputs. Potential benefits, however, will depend in part how China implements its industrial policies.</p> <p><b>Investment:</b> Fewer U.S. foreign investment opportunities as U.S. companies realize that there will be no official laws and regulations that require the use of local content, and therefore they will have the flexibility to import foreign inputs. However, pressures to use local content are likely to continue to impose operational constraints on U.S. firms.</p>
<b>Trade and foreign-exchange balancing requirements</b>  Production ventures are required to balance their foreign trade and foreign exchange so as to limit imports.	Virtually all foreign-invested enterprises in China.	<p><b>Trade:</b> Increased U.S. export opportunities as U.S. firms would be less likely to minimize imports and increase exports from China.</p> <p><b>Investment:</b> Increased U.S. foreign investment opportunities in China, but tempered by Chinese informal pressure to control trade and foreign exchange flows.</p>

Source: Compiled by USITC staff.

## ***Effects on U.S. Trade and Investment in Services***

Based on China's April 1999 offer, accession to the WTO would likely have a significant positive effect on U.S. trade and investment in services. China's offer proposes to liberalize a number of barriers faced by U.S. service providers. With respect to the services examined in this report, China offered 60 rollback commitments and 5 standstill commitments. The rollback commitments would liberalize or terminate a number of market access barriers faced by U.S. service providers, while the standstill commitments would identify trade impediments and deter the implementation of more restrictive measures. In addition, the Commission identified 11 barriers of uncertain status in the banking, securities, and insurance industries. The effect of implementing the April 1999 offer would be unclear with respect to these instances.

China currently maintains broad restrictions on forms of establishment and land ownership that pertain to all services (table ES-2). In addition, China maintains many industry specific restrictions, including

limitations on permissible services, geographic and quantitative restrictions, and limits on broadcasting and distribution. The confluence of these restrictions has limited the ability of U.S. firms to provide services to Chinese consumers. The U.S. embassy in Beijing estimated that China's current barriers to U.S. service suppliers result in \$3 to \$5 billion in lost sales each year (see chapter 5). If China's April 1999 offer becomes operative, U.S. service providers could expect to increase sales through affiliates in China.

Chinese restrictions on distribution service providers have been particularly onerous. China's current restrictions on wholesaling and retailing restrict the ability of foreign firms to establish a commercial presence in China. Similar restrictions prevent foreign firms from providing auxiliary distribution services such as maintenance and repair services; rental and leasing services; technical testing, analysis, and freight inspection services; and storage and warehousing services. China's April 1999 commitments would gradually liberalize restrictions in these areas, likely enabling U.S. firms to increase sales and direct investment in China, while enhancing control of the quality of services provided.

**Table ES-2**  
**Summary of Non-tariff barriers affecting services**

Service sector	Non-tariff barriers	Effects of April 1999 offer
<b><i>Distribution services</i></b>		
Wholesaling and retailing services	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Foreign equity restrictions.</li> <li>• Limitations on permissible services.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> </ul>
Auxiliary distribution services	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Limitations on permissible services.</li> <li>• Foreign equity restrictions.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> </ul>
Accounting and management consulting services	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Foreign equity restrictions.</li> <li>• Restrictions on employment.</li> <li>• Limitations on permissible services.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> </ul>
Audiovisual services	<ul style="list-style-type: none"> <li>• Restrictions on importation and distribution.</li> <li>• Restrictions on establishment.</li> <li>• Quotas</li> <li>• Limits on broadcasting.</li> <li>• Censorship</li> <li>• IPR violations.</li> <li>• Local production requirements.</li> <li>• Foreign investment restrictions.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and investment. However, a restriction maintaining the Chinese Government's right to examine the content of audiovisual products would likely delay the release of foreign products.</li> <li>• The Motion Picture Association estimates increased revenues of \$80 million for the motion picture industry.</li> </ul>
Courier services	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Restrictions on joint venture expansion.</li> <li>• Limitations on permissible services.</li> <li>• Restrictions on employment.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> </ul>
<b><i>Financial services</i></b>		
Banking and securities services	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Minimum asset requirements.</li> <li>• Limitations on permissible services.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> <li>• Broader scope of services.</li> <li>• Some restrictions were not addressed by the April 1999 offer, rendering the effects of operative offer uncertain.</li> <li>• One U.S. banking firm indicated revenues from China-based operations would increase by \$5.2 million.</li> </ul>
Insurance services	<ul style="list-style-type: none"> <li>• Limitations on operation.</li> <li>• Restrictions on establishment.</li> <li>• Limitations on permissible services.</li> <li>• Investment restrictions.</li> <li>• Foreign equity limitations.</li> <li>• Employment restrictions.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> <li>• Broader scope of services.</li> <li>• Some restrictions were not addressed by the April 1999 offer, rendering the effects of operative offer uncertain.</li> </ul>

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**Table ES-2—Continued**  
**Summary of Non-tariff barriers affecting services**

Service sector	Non-tariff barriers	Effects of April 1999 offer
<i>Financial services—Continued</i>		
Telecommunication services	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Restrictions on foreign investment.</li> <li>• Limitations on permissible services.</li> <li>• Foreign equity limitations.</li> </ul>	<ul style="list-style-type: none"> <li>• Increases in sales and direct investment.</li> </ul>
Entire service sector <sup>1</sup>	<ul style="list-style-type: none"> <li>• Restrictions on establishment.</li> <li>• Limitations on permissible services.</li> <li>• Foreign equity restrictions.</li> <li>• Restrictions on joint venture expansion.</li> <li>• Restrictions on employment.</li> <li>• Investment restrictions.</li> </ul>	<ul style="list-style-type: none"> <li>• U.S. Embassy, Beijing estimates increased revenues of \$3 to \$5 billion.<sup>2</sup></li> </ul>

<sup>1</sup> This includes all service sectors, both those treated above as well as those not treated in this study.

<sup>2</sup> U.S. Department of State telegram, "China: Draft 1999 National Trade Estimate," message reference No. 000721, prepared by U.S. Embassy, Beijing, Jan. 22, 1999.

Source: Compiled by USITC staff.

## *Effects on U.S. Trade in Selected Agricultural Products*

China's April 1999 offer on agricultural products included several sectors identified by the United States as priorities: wheat, corn, rice, soybean oil, and cotton. In its offer, China made specific commitments to replace existing barriers with TRQs,<sup>1</sup> which if

<sup>1</sup> The WTO Agreement on Agriculture commits WTO members to tariffication, whereby quantitative restrictions on agricultural imports would be converted into tariffs. WTO members are allowed to replace non-tariff barriers with tariff-rate quotas, in which a low tariff rate is applied to imports of a product up to a particular amount, and a higher tariff is applied to imports in excess of that amount.

implemented, should increase U.S. market access opportunities. These proposed TRQs are at levels substantially above current import volumes. These products have been subject to a number of barriers, including tariffs, quotas, licensing requirements, and state trading. While export potential exists for U.S. industry, the extent of opportunity may be limited by the reserving of a share of imports and exports for state trading enterprises, as well as China's actions on its domestic support policies and third country exports. Foreign investment restrictions are unlikely to change (table ES-3).

**Table ES-3**  
**Summary of effects of Chinese institution of tariff-rate quotas on U.S. trade and U.S. foreign investment under WTO accession, including China's April 1999 offer**

Product	Effects
<b>Grains:</b>	
Wheat	<p><b>Trade:</b> Market access opportunities would likely be created by a TRQ. However, the extent of any increase in U.S. exports would depend ultimately upon the role of state trading enterprises, China's production policies, and the competitiveness of U.S. wheat exports relative to Australian and Canadian wheat.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>

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**Table ES-3—Continued**

**Summary of effects of Chinese institution of tariff-rate quotas on U.S. trade and U.S. foreign investment under WTO accession, including China's April 1999 offer**

Product	Effects
Corn	<p><b>Trade:</b> Market access opportunities would likely be created by a TRQ. However, the extent of any increase in U.S. exports would depend upon the role of state trading enterprises, China's production policies, and the competitiveness of U.S. corn exports, relative to Argentine or third-country feedgrains.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Rice	<p><b>Trade:</b> Market access opportunities for U.S. rice would likely be created by a TRQ. However, the extent of any increases in U.S. exports would depend upon the role of state trading enterprises, China's production policies, and the competitiveness of U.S. rice exports.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
<b>Oilseeds:</b>	
Soybeans	<p><b>Trade:</b> Current U.S. market access opportunities maintained. The nominal TRQ on soybeans (announced but never enforced) would be eliminated, and the current 3-percent duty continued.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Rapeseed	<p><b>Trade:</b> Uncertain. The United States is a net importer of rapeseed and is likely to remain so for the long-term.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
<b>Vegetable oils:</b>	
Soybean oil	<p><b>Trade:</b> Market access opportunities would likely be created by a TRQ and by a lower in-quota tariff rate. However, the extent of any increase in U.S. exports would depend upon the role of state trading enterprises, China's production policies, and the competitiveness of U.S. soybean oil exports relative third-country palm oil, rapeseed oil, and soybean oil exporters, and the extent of the VAT.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>

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**Table ES-3—Continued**  
**Summary of effects of Chinese institution of tariff-rate quotas on U.S. trade and U.S. foreign investment under WTO accession, including China's April 1999 offer**

Product	Effects
<b>Vegetable oils—Continued</b>	
Peanut oil	<p><b>Trade:</b> Uncertain. Total U.S. exports were valued at \$4.5 million in 1998, with no exports to China.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Palm oil	<p><b>Trade:</b> Uncertain. Since the United States does not produce palm oil, there would be a negligible effect on U.S. exports of palm oil to China. However, to the extent that a TRQ on palm oil is sufficiently open, U.S. exporters of some types of vegetable oils may face a decline in exports as Chinese consumers substitute palm oil for other oils.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Sunflower or safflower oil	<p><b>Trade:</b> Uncertain. China imports little sunflower or safflower seed oil. U.S. exports to China have been negligible, although U.S. exports to the world totaled \$265.5 million in 1998.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Rapeseed oil	<p><b>Trade:</b> Uncertain. U.S. exports to China have been negligible, although U.S. exports to the world totaled \$97.1 million in 1998.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Corn oil	<p><b>Trade:</b> Uncertain. China imports virtually no corn oil. U.S. exports to China have been negligible, although U.S. exports to the world totaled \$359.6 million.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
<b>Other:</b>	
Cotton	<p><b>Trade:</b> Market access opportunities would likely be created by a TRQ. However, the extent of any increase in U.S. exports would depend upon the role of state trading enterprises, how the TRQ is implemented, China's production policies, and the competitiveness of U.S. cotton exports. China presently has a surplus of domestic cotton. China's policies regarding cotton from Xinjiang Province may limit cotton imports.</p> <p><b>Investment:</b> There likely would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>
Sugar	<p><b>Trade:</b> Uncertain. The United States is a net importer of sugar. U.S. sugar producers would benefit from stability in world sugar trade that would result if China liberalized its sugar market and permitted the market to adjust production.</p> <p><b>Investment:</b> A TRQ may possibly benefit foreign confectionary producers in China, as lower tariffs on their foreign inputs would prompt investment.</p>

Table continues on next page.

Table ES-3—Continued

Summary of effects of Chinese institution of tariff-rate quotas on U.S. trade and U.S. foreign investment under WTO accession, including China's April 1999 offer

Product	Effects
<b>Other—Continued</b>	
Wool and wool tops	<p><b>Trade:</b> Uncertain. The United States is a net importer of wool. However, as U.S. consumption of wool drops due to a declining textile and apparel industry, U.S. wool producers expect to look toward export markets such as China and wool top producers desire to return to the Chinese market.</p> <p><b>Investment:</b> There would be little or no effect on U.S. foreign investment in China resulting from a Chinese TRQ.</p>

Source: Compiled by USITC staff.

## Effects on the U.S. Economy of Reducing China's Tariffs

The USTR initially requested that the USITC assess the impact on the U.S. economy of a 25 percent and a 50 percent across-the-board cut in China's 1992 and 1997 tariff rates. Subsequently, the USTR requested an assessment of the specific tariff cuts offered by China in April 1999. Employing the China-WTO model, the study finds that the impact on the United States of the various tariff cuts considered is

positive, but minor, in terms of growth in U.S. gross domestic product, total exports and imports, consumption and wages (table ES-4). Accounting for growth effects leads to slightly larger changes in all of these economic variables, although they are still small. This result is consistent with the fact that U.S. trade with China accounts for less than 1 percent of U.S. GDP. Moreover, it is consistent with the fact that no changes in U.S. tariffs are required by China's accession to the WTO and thus only the indirect effects of China's changes would be noticeable in this analysis of the U.S. economy.

**Table ES-4**  
Impact of April 1999 tariff offer on the U.S. economy

Item	Static effects		Static plus growth effects <sup>1</sup>	
	\$ Billions	Percent	\$ Billions	Percent
GDP <sup>2</sup> .....	0.3	( <sup>3</sup> )	1.7	( <sup>3</sup> )
Household welfare gain <sup>2</sup> .....	1.8	( <sup>4</sup> )	3.3	( <sup>4</sup> )
Total exports <sup>5</sup> .....	1.5	0.2	1.9	0.2
Total imports <sup>5</sup> .....	0.9	0.1	1.1	0.1
Exports to China <sup>5</sup> .....	2.4	9.0	2.7	10.1
Imports from China <sup>5</sup> .....	3.4	5.2	4.4	6.9
Terms of Trade .....	( <sup>4</sup> )	0.2	( <sup>4</sup> )	0.1
Skilled wages .....	( <sup>4</sup> )	( <sup>3</sup> )	( <sup>4</sup> )	( <sup>3</sup> )
Less skilled wages .....	( <sup>4</sup> )	( <sup>3</sup> )	( <sup>4</sup> )	( <sup>3</sup> )

<sup>1</sup> Growth effects include productivity growth and capital accumulation associated with China's trade liberalization.

<sup>2</sup> These estimates reflect flexible exchange rates.

<sup>3</sup> Change less than 0.05 percent.

<sup>4</sup> Not applicable.

<sup>5</sup> Exports are valued at f.o.b prices. Imports are valued at c.i.f. prices. These estimates reflect fixed exchange rates.

Source: USITC staff estimates for base year 1998.

A more significant impact is found on U.S.-China trade flows. Imports into China would be stimulated by its tariff reductions; as a result, U.S. exports to China would likely be approximately 10 percent higher. U.S. imports from China are also estimated to be almost 7 percent higher as trade liberalization helps make China's export sectors more competitive. As a result of this increase, the model estimates an increase in the U.S. trade deficit with China. However, the U.S. trade balance with the world is estimated to remain unaffected as U.S. bilateral trade balances with other trading partners improve (table ES-5).

Economic impacts are more noticeable at the sectoral level, both in terms of overall sector and export growth (tables ES-6 and ES-7). The U.S. sectors most positively affected by China's trade

reforms would be agriculture, paper and pulp, chemicals, rubber, and plastics, other transport equipment (including aircraft) and machinery and equipment. Sectors that are expected to be negatively affected are footwear, wearing apparel, wood products, and other light manufactures.

Exports of cotton, beverages and tobacco, and vegetable oils to China are expected to increase significantly as a result of the tariff reductions proposed by China. Wheat and other grain (e.g., corn) exports, where tariff reductions are not as large, would also increase. In terms of value of sales to China, the largest increase is estimated to be in machinery and equipment, although competition from other countries would limit U.S. exports to China in most industrial goods.

**Table ES-5**  
**Impact of April 1999 tariff offer on the direction of change in U.S. bilateral trade balance**

Partner	Static effects	Static plus growth effects <sup>1</sup>
	— \$U.S. millions —	
Canada .....	24	27
Mexico .....	89	83
EU .....	74	39
Japan .....	63	115
Other OECD .....	-21	-18
Korea .....	129	133
Tawan .....	300	329
Hong Kong .....	-172	477
China .....	-149	-586
ASEAN .....	126	47
South Asia .....	194	113
Rest of World .....	7	-83
World .....	664	674

<sup>1</sup> Growth effects include productivity growth and capital accumulation associated with China's trade liberalization.

Source: USITC staff estimates for base year 1998, reflecting fixed exchange rates.



**Table ES-6**  
**Impact of April 1999 tariff offer on U.S sector growth**

<b>Sector</b>	<b>Static effects % Change</b>	<b>Static plus growth effects<sup>1</sup> % Change</b>
Wheat .....	0.1	0.2
Rice .....	-0.1	-0.1
Other grain .....	0.1	0.1
Oilseeds .....	0.5	0.7
Sugar .....	-0.1	-0.1
Cotton .....	2.2	2.4
Vegetable oils .....	1.4	1.5
Wool .....	-0.1	0.2
Beverages and tobacco .....	0.2	0.2
Textiles .....	-0.5	-0.5
Wearing apparel .....	-1.1	-1.2
Footwear and leather .....	-1.7	-1.9
Wood products .....	-0.1	( <sup>2</sup> )
Paper and pulp .....	( <sup>2</sup> )	0.1
Petroleum products .....	( <sup>2</sup> )	0.1
Chemicals, rubber and plastics .....	( <sup>2</sup> )	( <sup>2</sup> )
Mineral products .....	( <sup>2</sup> )	( <sup>2</sup> )
Iron and steel .....	( <sup>2</sup> )	( <sup>2</sup> )
Other metals .....	( <sup>2</sup> )	( <sup>2</sup> )
Metal products .....	( <sup>2</sup> )	( <sup>2</sup> )
Motor vehicles and parts .....	-0.1	( <sup>2</sup> )
Other transport equipment .....	( <sup>2</sup> )	( <sup>2</sup> )
Electronic equipment .....	( <sup>2</sup> )	-0.1
Other machinery and .....	0.1	( <sup>2</sup> )
Other manufactures .....	-0.8	-1.0

<sup>1</sup> Growth effects include productivity growth and capital accumulation associated with China's trade liberalization.

<sup>2</sup> Change less than 0.05 percent.

Source: USITC staff estimates for base year 1998.

**Table ES-7**  
**Impact of April 1999 tariff offer on U.S. exports to China by sector**

Sector	Static effects		Static plus growth effects <sup>1</sup>	
	\$ U.S. millions	% change	\$ U.S. millions	% change
Wheat .....	33.0	15.5	42.8	20.8
Rice .....	( <sup>2</sup> )	( <sup>3</sup> )	( <sup>2</sup> )	( <sup>3</sup> )
Other grain .....	56.6	27.6	66.4	33.6
Oilseeds .....	-5.6	-7.9	-1.9	-2.9
Sugar .....	( <sup>2</sup> )	3.4	( <sup>2</sup> )	11.2
Cotton .....	230.1	59.2	252.3	67.7
Vegetable oils .....	288.5	145.8	294.4	154.1
Wool .....	( <sup>2</sup> )	3.4	( <sup>2</sup> )	7.8
Beverages and tobacco .....	222.9	124.5	217.7	127.3
Textiles .....	44.1	21.6	47.9	23.9
Wearing apparel .....	12.6	28.4	12.5	29.1
Footwear and leather .....	126.7	21.3	138.1	23.8
Wood products .....	4.3	1.7	10.1	4.2
Paper and pulp .....	84.5	11.6	102.3	14.5
Petroleum products .....	9.8	11.3	12.6	15.1
Chemicals, rubber and plastics .....	102.2	2.8	170.0	4.8
Mineral products .....	13.3	5.0	17.9	6.9
Iron and steel .....	10.0	3.0	16.4	5.1
Other metals .....	17.7	7.3	23.9	10.1
Metal products .....	62.5	12.3	70.9	14.3
Motor vehicles and parts .....	-592.8	-7.5	-329.2	-4.3
Other transport equipment .....	-107.6	-7.5	-75.2	-5.3
Electronic equipment .....	283.6	14.1	330.9	16.8
Other machinery and equipment .....	515.6	11.0	611.8	13.2
Other manufactures .....	205.6	114	208.4	119.1

<sup>1</sup> Growth effects include productivity growth and capital accumulation associated with China's trade liberalization.

<sup>2</sup> Change less than \$500,000.

<sup>3</sup> Change less than 0.05 percent.

Source: USITC staff estimates for base year 1998.

## ***Effects on the U.S. Economy of China's Participation in the WTO Agreement on Textiles and Clothing***

China is the world's largest single country exporter of textiles and apparel products. Almost three-quarters of U.S. sector imports from China consist of apparel, virtually all of which are covered by some type of quota. Although the majority of apparel from China continues to be of low- to medium-quality, the Chinese apparel industry is becoming more quality oriented and is beginning to produce higher-valued goods, particularly in those operations being guided by producers in Hong Kong. The potential for growth is

greater in China's apparel industry because apparel production is highly labor-intensive and China has an abundance of skilled, low-cost labor. The production of textile products, such as fibers, yarns, and fabrics, is more capital intensive. China, however, is restructuring its textile industry, selling off excess and outdated capacity and modernizing production.

Under the Agreement on Textiles and Clothing (ATC), the textile and apparel quotas are being phased out over a 10-year period, with full elimination of quota restrictions on WTO members occurring on January 1, 2005. A multi-period version of the China-WTO model is employed to estimate the impact on the U.S. economy of China's inclusion in the ATC quota phase out. The model accounts for the

differences in country quota rates of growth<sup>2</sup> during the phase-out period. This assessment is done at the aggregate and not at the commodity level at which quotas are applied.

The model results suggest that the overall impact on the U.S. economy of China's participation in the ATC would be positive. The economy-wide welfare gains for the United States would amount to about \$2.4 billion in 2006, while GDP would increase by about \$1.9 billion from the elimination of quotas in the same year. This occurs as a result of efficiency gains from factor reallocation in the U.S. economy, as well as from lower-priced goods imported into the United States.

Certain data limitations prevented the Commission from providing estimates of changes in U.S. textile and apparel production, employment, imports, and exports. However, the simulation results suggest that inclusion of China in the ATC quota phase-out will likely have a small impact on U.S. imports of textiles and a larger effect on U.S. imports of apparel. Although much of this increase in China's exports of textiles and apparel comes at the expense of other suppliers to the U.S. market, the U.S. textile and apparel industries could also be affected, with U.S. apparel producers and workers experiencing the more adverse effects. Because the accelerated quota growth rates for China for many of the U.S. textile and apparel quota categories are low and the quotas are likely to constrain trade, the adverse effects are likely to be experienced after the end of the phase-out period (i.e., after December 31, 2004).

According to the model results, U.S. capital-intensive exports to China would increase by more than \$300 million a year after the elimination of textile and apparel quota restrictions in 2005. This is because the expansion of China's production and trade in labor-intensive manufactures would likely result in higher demand for capital- and skill-intensive manufactured goods in China.

The model also demonstrates the impact that China's inclusion in the ATC would have on U.S. import market shares. If China's textile products,

continue to face quota restrictions in the U.S. market China's U.S. market share would remain essentially unchanged (figure ES-1). The share of the U.S. textile import market captured by other restricted suppliers would expand somewhat during 1998-2004 because of the accelerated quota growth rate mechanism under the Agreement on Textiles and Clothing, and this group would continue to take a larger share of the U.S. market through 2010.

If quotas on China are eliminated, its share in the U.S. textile market would increase slightly, to about 11 percent by 2010. In the case of the U.S. apparel market, China's share would increase by about 18 percentage points if quotas are removed after December 31, 2004, resulting in China obtaining over 30 percent of the U.S. import market (figure ES-2). This increase in China's share in the U.S. import market would occur as Chinese products would displace exports from other suppliers, particularly suppliers whose exports currently are not restricted by quotas (i.e., the "rest of world" group).

## *Effects of WTO Accession on China*

As in its analysis of the impact of WTO accession on the United States, the study assesses the effect of WTO accession on China using both quantitative and qualitative approaches. The China-WTO model was used to estimate the impact of China's tariff cuts; a qualitative discussion is provided to analyze the possible impact of WTO accession on the future course of China's economic reforms.

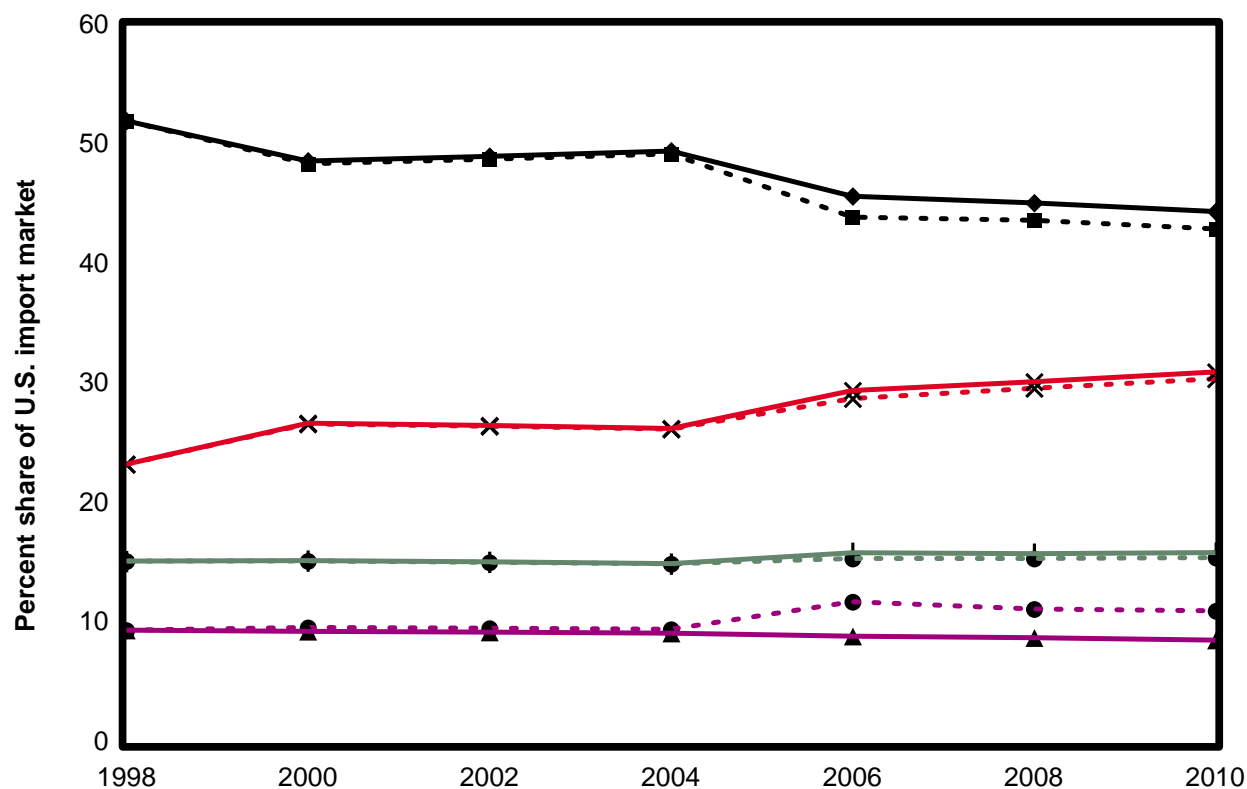
As noted earlier, China has undergone phenomenal change in recent years both in terms of GDP growth and changing trade patterns. Whether China joins the WTO or not, its growth and future trade patterns will continue to evolve due to broader economic forces. In particular, the ongoing relocation of industries among East Asian countries and China's participation in multi-country production arrangements with its East Asian neighbors are having a profound impact on China's trade patterns.

Employing the China WTO model, the study finds that China's economy would expand by 4 percent as a result of China's April tariff offer, taking into account the growth effects of such liberalization (table ES-8). This reflects the efficiency gains from liberalization that would induce further investment in China's economy, thereby expanding production. In addition,

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<sup>2</sup> The Agreement on Textiles and Clothing requires importing countries to increase the base quota growth rates for major supplying countries by 16 percent for WTO members on January 1, 1995; by an additional 25 percent on January 1, 1998; and by yet another 27 percent in 2002. The modeling data in this exercise were obtained from the International Textiles and Clothing Bureau in Geneva.

**Figure ES-1**  
**Share of U.S. imports of textiles: 1998-2010**



### LEGEND

#### Base:

- China
- South Korea, Hong Kong, Taiwan
- Other restricted suppliers
- Rest of world

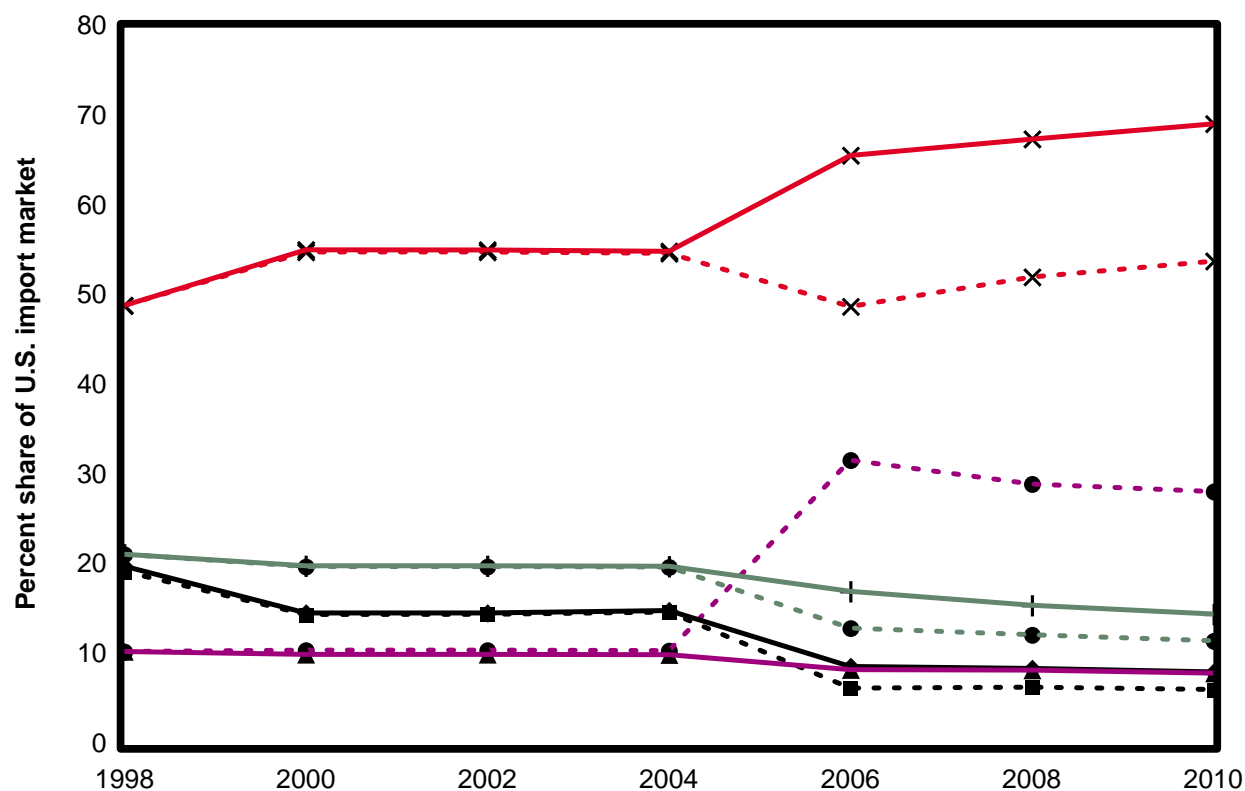
#### China WTO Accession:

- - - China
- - - South Korea, Hong Kong, Taiwan
- - - Other restricted suppliers
- - - Rest of world

Note.—Other restricted suppliers includes three model regions: South Asia, ASEAN, and “other restricted suppliers.” Rest of world includes six model regions: Canada, the EU, Mexico, Japan, other developed countries, and “all other countries.”

Source: Based on USITC staff estimates.

**Figure ES-2**  
**Share of U.S. imports of apparel: 1998-2010**



### LEGEND

#### Base:

- China
- South Korea, Hong Kong, Taiwan
- Other restricted suppliers
- Rest of world

#### China WTO Accession:

- - - China
- - - South Korea, Hong Kong, Taiwan
- - - Other restricted suppliers
- - - Rest of world

Note.—Other restricted suppliers includes three model regions: South Asia, ASEAN, and “other restricted suppliers.” Rest of world includes six model regions: Canada, the EU, Mexico, Japan, other developed countries, and “all other countries.”

Source: Based on USITC staff estimates.

**Table ES-8**  
**Impact of April 1999 tariff offer on China's economy**

	<b>Static effects % change</b>	<b>Static plus growth effects<sup>1</sup> % change</b>
GDP .....	0.9	4.1
Welfare .....	-0.3	2.1
Terms of trade .....	-2.1	-1.8
Total Exports .....	10.1	12.2
Total Imports .....	11.9	14.3

<sup>1</sup> Growth effects include productivity growth and capital accumulation associated with China's trade liberalization.  
Source: USITC staff estimates for base year 1998.

China would benefit from increased imports of capital goods, which are expected to improve its productivity. Overall, China's exports would increase by 12 percent, again taking into account growth effects, while its imports would increase by 14 percent.

The potential impact of WTO accession on the future course of China's economic reforms is complex. In general, countries that liberalize trade are likely to adopt more open economic policies in other areas as

well. WTO accession could lead to greater standardization of Chinese economic policies at the provincial and local level. Such standardization could be beneficial to U.S. firms in China, but could inhibit local-level experimentation with new reforms. China's state-owned enterprises, which enjoy substantial political influence and privilege, are currently weak financially, and would come under intensified pressure from international competition under WTO accession.