Foreign Trade in the People’s Republic of China: Past Performance and Future Challenges
Haiying Zhao

Abstract. The People’s Republic of China (PRC) mainly exports labor-intensive manufacturing products, especially textile and apparel, which face fierce international competition. The PRC’s trade is also unevenly distributed, which has led to trade frictions with the United States (US). Given this situation, four factors (challenges) are important for the future of the PRC’s trade: membership in the World Trade Organization (WTO); Sino-US trade relations, which will affect the PRC’s access to the US market and conditions for entering WTO; phasing-out of the Multi-Fibre Arrangement (MFA); and antidumping, a trade policy instrument that makes the PRC’s exports especially vulnerable because of the use of surrogate countries. In the near future the PRC should still be able to obtain reasonable market access because most countries except the US have already given the PRC unconditional most favored nation (MFN) status. A US withdrawal of the PRC’s MFN status will lead to trade wars and is unlikely to happen under normal circumstances. The PRC will not suffer much from the MFA phasing-out because benefits of the agreement are heavily back loaded and will not materialize until years later. Setting up the PRC’s own antidumping regulations is a good strategic move to deter possible abuse of antidumping by other countries.

The world has witnessed over the last two decades the transformation of the PRC from an autarkic nation to a major trading power. Between 1980-1995, the PRC’s foreign trade has increased by 636 percent and exports have increased by an astonishing 721 percent. In 1978, the PRC’s share in

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total world trade was a mere 0.85 percent, while in 1994, its share had increased to 2.9 percent, making it the world’s 11th largest trader. In 1978, the PRC’s trade to GNP ratio was only 9.7 percent. In 1994, this ratio had increased to 46.3 percent.

Four factors contributed to the PRC’s past miraculous trade performance. The first, and most important, are the reforms of the foreign trade sector. These reform measures include the introduction of a foreign exchange retention system, decentralization and improved autonomy of foreign trade corporations, gradual reduction of trade planning, and gradual devaluation of the renminbi (RMB) to its market level.\(^1\) The second factor is the abundant supply of cheap labor, which has made the PRC one of the most important suppliers of labor-intensive products in the world market. The third factor is the PRC’s favorable policy toward foreign investment. In 1980, foreign-invested enterprises generated only 0.05 percent of the PRC’s exports, while in 1995, they generated 31.5 percent. The fourth is a relatively friendly international trade environment provided the necessary condition for the rapid expansion of the PRC’s exports. As a matter of fact, except in the case of the US where the PRC’s MFN status is subject to annual renewal, all of the PRC’s major trading partners have granted the country unconditional MFN status, which allows the PRC to benefit from low tariff rates that are available to member countries of WTO.

Rapid growth of foreign trade provided momentum for economic reform in the PRC and helped reform-minded government officials rally support for continued reform. Therefore future trade performance is of critical importance for the future of the PRC economy as a whole. In a recent paper, Harrold (1995) succinctly summarized the current situation of the PRC’s foreign trade regime and discussed factors that are important for future trade, such as US-PRC relations and obstacles to the PRC’s entry into WTO. This paper seeks to shed light on the issue of the future of the PRC’s foreign trade by providing a systematic analysis of the challenges to future trade in the PRC. This analysis is based on analytical results documented in Zhao (1996) and other studies of the PRC’s trade, such as Harrold (1995); World Bank (1994); Lardy (1992, 1994); Robinson and Wang (1995); Panagariya (1993b); Zhong and Yang (1996); and a number of articles and books from Chinese sources. In addition to US-PRC relations and the WTO membership issue, the paper will also examine implications of phasing-out of the MFA, which is arguably one of the most important achievements of the Uruguay Round of trade negotiations; and antidumping, which is expected to become one of the most important trade policy instruments in the future.

The first section will examine key patterns of the PRC’s foreign trade at the 3-digit SITC level. Most of the existing literature on the PRC’s foreign trade, such as Lardy (1994), Fung and Lau (1996), and World Bank (1994), focus on aggregate

\(^1\)The reform sequence of the PRC’s foreign trade sector has been extensively documented and analyzed in Lardy (1992) and World Bank (1994). Zhao (1996) and Harrold (1995) analyzed the more recent developments in the PRC’s foreign trade sector.
trade flows. This analysis at the disaggregated level helps to identify key competitors of the PRC’s exports. It has important implications for the PRC’s strategy to meet the challenges of the future. Four important factors affecting the future of the PRC’s foreign trade—Sino-US trade relations, WTO membership, MFA phaseout, and antidumping measures (ADM), will be dealt with separately in the second to fifth sections. The sixth section will conclude by discussing the PRC’s strategy.

**Patterns of the PRC’s Foreign Trade**

**Structure of Exports**

Like most developing countries, the PRC’s exports mainly consist of merchandise exports with an extremely small amount of service exports. Before reform, the PRC’s products were not competitive in the international market and the country mainly exported primary products. In 1980s at the beginning of reform, primary products accounted for more than 50 percent of the PRC’s total merchandise exports. In 1985, this group still accounted for slightly over 50 percent of total merchandise exports.

As the PRC’s economy became more market-oriented with reform, exports also became more diversified. The share of manufacturing exports in total exports has increased from less than 50 percent in 1980 to 86 percent in 1995. To examine the structure of the PRC’s exports in more detail, the paper calculated the PRC’s top 10 exports at the 4-digit SITC (revision 3) level using the UNCTAD COMTRADE (1992-94) database. However, the PRC’s exports are diversified sufficiently well that these top 10 exports only account for a very small percentage of the PRC’s total exports. The paper then calculated the PRC’s top 10 exports at the 3-digit SITC (revision 3) level. Even at this level of aggregation, the top 10 exports still account for no more than 34 percent of total exports for the years 1992-1994.

All of the PRC’s top 10 export products identified in Table 1 are labor-intensive manufacturing products except SITC 333 (petroleum and related products). Five of the top 10 products belong to the textile and apparel industry (652, 841, 842, 845, and 848), making textile and apparel the PRC’s most important export category. Indeed, the industry has been a net exporter for many years. In 1993, textile and clothing only accounted for 16 percent of the national output (Almanac of the PRC Textile Industry 1994), but it accounted for about 30 percent of the total exports. In 1994, textile and apparel industry alone generated $25.581 billion net. The PRC textile and apparel exports were a mere $4.089 billion in 1980, and had increased 769 percent to $35.55 billion in 1994. The PRC’s share of total world trade in textile and clothing has doubled from 5.2 percent in 1985 to 10.2 percent in 1993. In 1994, the PRC was already the world’s largest apparel exporter and second largest textile
exporter. The other major exports include footwear (851); baby carriages, toys, games and sporting goods (894); and miscellaneous manufactured products (899).

Table 1: The PRC’s Top 10 Exports and Imports

<table>
<thead>
<tr>
<th>Top 10 Merchandise Exports (SITC-3)</th>
<th>% of Total Merchandise Exports</th>
<th>Top 10 Merchandise Imports (SITC-3)</th>
<th>% of Total Merchandise Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>841</td>
<td>5.55</td>
<td>728</td>
<td>5.67</td>
</tr>
<tr>
<td>842</td>
<td>5.41</td>
<td>764</td>
<td>4.87</td>
</tr>
<tr>
<td>851</td>
<td>5.21</td>
<td>724</td>
<td>3.89</td>
</tr>
<tr>
<td>845</td>
<td>4.52</td>
<td>676</td>
<td>3.00</td>
</tr>
<tr>
<td>894</td>
<td>4.24</td>
<td>653</td>
<td>2.84</td>
</tr>
<tr>
<td>333</td>
<td>2.41</td>
<td>792</td>
<td>2.70</td>
</tr>
<tr>
<td>652</td>
<td>2.33</td>
<td>673</td>
<td>2.55</td>
</tr>
<tr>
<td>764</td>
<td>2.03</td>
<td>776</td>
<td>2.37</td>
</tr>
<tr>
<td>899</td>
<td>2.01</td>
<td>333</td>
<td>1.97</td>
</tr>
<tr>
<td>848</td>
<td>1.94</td>
<td>651</td>
<td>1.81</td>
</tr>
<tr>
<td>Total</td>
<td>33.65</td>
<td>31.67</td>
<td></td>
</tr>
</tbody>
</table>

Notes: The ranking of the top 10 products are based on the average of 1992–1994 data. The PRC is the reporting country, i.e., the original data is supplied by the PRC government.

Exports:
333 = Petroleum oils and oils obtained from bituminous minerals, crude
652 = Cotton fabrics, woven (excluding narrow or special fabrics)
764 = Telecom equipment, nes; and parts, nes, and accessories of apparatus falling within division 76
841 = Men’s or boys’ coats, jackets, suits, blazers, trousers, shorts, shirts, underwear, nightwear, and similar articles of textile fabrics, not knitted or crocheted
842 = Women’s or girls’ coats, jackets, suits, blazers, trousers, shorts, shirts, underwear, nightwear, and similar articles of textile fabrics, not knitted or crocheted
845 = Articles of apparel, of textile fabrics, whether or not knitted or crocheted, nes
848 = Articles of apparel and clothing accessories of other than textile fabrics; headgear of all materials
851 = Footwear
894 = Baby carriages, toys, games and sporting goods
899 = Miscellaneous manufactured articles, nes
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Imports:

333 = Petroleum oils and oils obtained from bituminous minerals, crude
651 = Textile yarn
653 = Fabrics, woven, of manmade textile materials (excluding narrow or special fabrics)
673 = Flat-rolled products, of iron or nonalloy steel, not clad, plated, or coated
676 = Iron and steel bars, rods, angles, shapes, and sections (including sheet piling)
724 = Textile and leather machinery, and parts thereof, nes
728 = Other machinery and equipment specialized for particular industries, and parts thereof, nes
764 = Telecom equipment, nes; and parts, nes, and accessories of apparatus falling within division 76
776 = Thermionic, cold cathode, or photo-cathode valves and tubes; diodes, transistors, and similar semi-conductor devices; photosensitive semiconductor devices; light-emitting diodes; mounted piezo-electric crystals; electronic integrated circuits and microassemblies; and parts thereof
792 = Aircraft and associated equipment; spacecraft (including satellites) and spacecraft launch vehicles; and parts thereof


Table 3: The PRC’s Textile and Apparel Trade

<table>
<thead>
<tr>
<th>Year</th>
<th>Textile and Apparel Exports (a) (US$million)</th>
<th>% Share in Total Exports</th>
<th>Textile and Apparel Imports (b) (US$million)</th>
<th>% of Total Imports</th>
<th>Net Foreign Exchange Earnings (a)-(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>13,124</td>
<td>25</td>
<td>3,229</td>
<td>5.5</td>
<td>9895</td>
</tr>
<tr>
<td>1990</td>
<td>13,850</td>
<td>22</td>
<td>3,230</td>
<td>6.0</td>
<td>10,620</td>
</tr>
<tr>
<td>1991</td>
<td>16,732</td>
<td>23</td>
<td>4,300</td>
<td>6.7</td>
<td>12,432</td>
</tr>
<tr>
<td>1992</td>
<td>25,340</td>
<td>30</td>
<td>7,999</td>
<td>9.8</td>
<td>17,341</td>
</tr>
<tr>
<td>1993</td>
<td>27,130</td>
<td>30</td>
<td>8,197</td>
<td>7.9</td>
<td>18,933</td>
</tr>
<tr>
<td>1994</td>
<td>35,550</td>
<td>29</td>
<td>9,969</td>
<td>8.6</td>
<td>25,581</td>
</tr>
</tbody>
</table>

Note: Exports data for 1989-1994 are taken from the Almanac of the PRC’s Textile Industry (originally from PRC Customs). Imports data for 1989-91 are calculated from the PRC Customs Statistics (SITC 65+84) and data for 1992-94 are from COMTRADE database using the PRC as a reporter. Note that starting from 1992, the PRC Customs Statistics changed from SITC system to the HS system. Total exports and imports data used here are from Direction of Trade Statistics, IMF.
Direction of Trade

The PRC does not have a large merchandise trade surplus, unlike Japan, and the country’s foreign trade has not been evenly distributed geographically.² The PRC heavily depends on the US market for its exports. In contrast, the US plays a much less important role in supplying imports to the PRC. In 1994, 17.7 percent of the PRC’s exports were destined for the US but only 12 percent of the PRC’s imports came from the US. This asymmetry has led to a huge bilateral trade surplus and trade frictions between the PRC and the US. On the other hand, Japan absorbed roughly the same amount of the PRC’s exports (17.8 percent) but it supplied 23 percent of the PRC’s total imports, almost twice as much as the US.

In Zhao (1996), a gravity model was used to analyze the PRC’s trade and exports. Total trade and exports were regressed on market size, level of economic development, and distance between trading partners. The predicted value of such a regression model indicates how much an average country would trade with its partners given factors such as level of economic development, distance to the trading partner etc. The country dummy for the PRC indicated that the PRC traded less than the average country at the beginning of the reform, and that it has consistently traded more than the average country during the later stages of reform. This result is consistent with the gradual opening of the PRC’s economy. Defining the predicted value of the PRC’s trade as the PRC’s trade “norm”, Sino-US trade in 1990 exceeded the PRC’s norm by 131 percent, and in 1992, by 90 percent. On the other hand, Sino-Japanese trade was 16 percent below the PRC’s norm in 1990 and only 4 percent above the PRC’s norm in 1992. As expected, the PRC’s exports to the US exceeded the PRC’s export “norm”, while the PRC’s exports to Japan were below the PRC’s export “norm” in 1990 and 1992.

Similar conclusions can be obtained at the disaggregate level. As indicated in Tables 2a and 2b, between 1990 and 1994 the US was the largest market for six of the PRC’s top 10 export products and Japan was the largest market for four of the PRC’s top ten export products. On the import side, however, except for aircraft and associated equipment where the US supplied 82 percent of the PRC’s imports, the US has been a minor supplier for all of the other top ten import products. In contrast, Japan was the number one or number two supplier for six of the PRC’s top ten import products.

²Lardy (1994) made the same point. However, we should note that due to the austerity program, the PRC trade surplus has increased since 1994.
Table 2a: Direction of Trade for the PRC’s Top 10 Exports  
(1990-1994 average; value in US$000)

<table>
<thead>
<tr>
<th>SITC</th>
<th>Asia, excluding Japan</th>
<th>EEC</th>
<th>Japan</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% Share of Total PRC Exports</td>
<td>% Share of Total PRC Exports</td>
<td>% Share of Total PRC Exports</td>
<td>% Share of Total PRC Exports</td>
</tr>
<tr>
<td>333</td>
<td>510933</td>
<td>18.11</td>
<td>8</td>
<td>0.00</td>
</tr>
<tr>
<td>652</td>
<td>224111</td>
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<tr>
<td>764</td>
<td>126463</td>
<td>7.61</td>
<td>325263</td>
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<tr>
<td>841</td>
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<td>859326</td>
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<tr>
<td>842</td>
<td>35534</td>
<td>0.77</td>
<td>1104678</td>
<td>23.82</td>
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<tr>
<td>845</td>
<td>57550</td>
<td>1.17</td>
<td>1031193</td>
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<tr>
<td>848</td>
<td>16150</td>
<td>1.00</td>
<td>445390</td>
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<td>851</td>
<td>77950</td>
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<td>14.52</td>
</tr>
<tr>
<td>894</td>
<td>104265</td>
<td>1.43</td>
<td>2013879</td>
<td>27.62</td>
</tr>
<tr>
<td>899</td>
<td>89026</td>
<td>3.88</td>
<td>768892</td>
<td>33.53</td>
</tr>
</tbody>
</table>

Table 2b: Origin of the PRC’s Top 10 Imports  
(1990-1994 average; value in US$000)

<table>
<thead>
<tr>
<th>SITC</th>
<th>Asia, excluding Japan</th>
<th>EEC</th>
<th>Japan</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% Share of Total PRC Exports</td>
<td>% Share of Total PRC Exports</td>
<td>% Share of Total PRC Exports</td>
<td>% Share of Total PRC Exports</td>
</tr>
<tr>
<td>333</td>
<td>583113</td>
<td>67.10</td>
<td>57467</td>
<td>6.61</td>
</tr>
<tr>
<td>651</td>
<td>71845</td>
<td>37.15</td>
<td>9427</td>
<td>4.87</td>
</tr>
<tr>
<td>653</td>
<td>159635</td>
<td>28.53</td>
<td>11180</td>
<td>2.00</td>
</tr>
<tr>
<td>673</td>
<td>244959</td>
<td>24.30</td>
<td>110409</td>
<td>10.95</td>
</tr>
<tr>
<td>676</td>
<td>370705</td>
<td>41.55</td>
<td>207897</td>
<td>23.30</td>
</tr>
<tr>
<td>724</td>
<td>90700</td>
<td>6.18</td>
<td>606976</td>
<td>41.33</td>
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<tr>
<td>728</td>
<td>72368</td>
<td>4.29</td>
<td>780151</td>
<td>46.25</td>
</tr>
<tr>
<td>764</td>
<td>21298</td>
<td>66.70</td>
<td>3778</td>
<td>11.83</td>
</tr>
<tr>
<td>776</td>
<td>111802</td>
<td>29.24</td>
<td>18670</td>
<td>4.88</td>
</tr>
<tr>
<td>792</td>
<td>33616</td>
<td>1.71</td>
<td>281507</td>
<td>14.34</td>
</tr>
</tbody>
</table>

Note: EEC includes Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, and the United Kingdom. Asia includes India, Indonesia, Israel, Kuwait, Malaysia, Pakistan, Philippines, Singapore, Turkey, Thailand, and Republic of Korea.

Source: Calculated from UNCTAD COMTRADE 1990-94 Database. The PRC is partner country, i.e., the original data are supplied by the PRC’s trading partners.
The PRC’s Major Competitors in the International Market Place

The PRC mainly exports labor-intensive manufacturing products and faces competition from other developing countries. To analyze this issue, Zhao (1996) identified the top 10 suppliers for the PRC’s top 10 export products according to market share, averaged over five years (1990-1994) in the four major markets: Asia (excluding Japan), EEC, Japan, and US. Several patterns can be identified. Firstly, the PRC is within the top 10 suppliers in all four markets for all of the PRC’s top 10 exports, indicating that the PRC captures important market share and probably important market power for its major export products.

Secondly, for apparel products (SITC 841, 842, 845, and 848), the PRC is the number one or number two supplier in all four markets except in the case of women’s and girl’s coats, jackets, suits, blazers, trousers, etc. (SITC 842) in the “Asia” market. Even in this case, the PRC is only slightly behind the number two supplier, France. Hence, for apparel products, the PRC captures a very important market share. This is especially true in Japan and the US. In Japan, the PRC ranked number one for SITC 841 (men’s or boys’ coats, etc.); SITC 842 (women’s or girls’ coats, etc.); and SITC 845 (articles of apparel, of textile fabrics, etc.). In addition, the PRC actually had a dominant position in the market and supplied over 40 percent of Japanese imports for these three categories. In the US, the PRC was the number one supplier for eight of the PRC’s top ten exports:

- SITC 652 (cotton fabrics, woven)
- SITC 841 (men’s or boys’ coats, etc.)
- SITC 842 (women’s or girls’ coats, etc.)
- SITC 845 (articles of apparel, of textile fabrics, etc.)
- SITC 848 (articles of apparel and clothing accessories of other than textile fabrics, etc.)
- SITC 851 (footwear)
- SITC 894 (baby carriages, etc.)
- SITC 899 (miscellaneous manufactured articles, etc.)

In addition, with the only exception of cotton fabrics and woven (SITC 652) the PRC led the second supplier by a large margin, making the PRC a dominant supplier for these eight product groups in the US market.

Thirdly, except in the EEC, the PRC is the number one supplier for cotton fabrics and woven (SITC 652) in all other markets. In Japan, the PRC supplies more than 50 percent of Japanese imports of SITC 652.

Fourthly, for footwear (SITC 851) the PRC has also captured significant market share especially in the US where the PRC is the number one supplier, leading the second supplier by 20 percent. For toys and games etc. (SITC 894) the PRC is the number one supplier in the EEC and US markets leading the second supplier by a large margin. In Japan, the PRC only slightly lagged behind US as the second major
supplier. The PRC does not have important market share for telecommunication equipment etc. (SITC 764) and petroleum and related products (SITC 333).

As the above analysis indicates, the PRC has been able to capture an important market share for most of its major export products in all major markets. However, other Asian developing countries such as Malaysia, Pakistan, and Thailand are also among the top ten suppliers for the PRC’s top ten export products in all markets except the EEC (for detailed data see Zhao 1996). They export similar products as the PRC and seem to be important competitors of the PRC’s exports. Therefore securing (at least) a similar market access as these other developing countries is important for the PRC to maintain competitiveness in the future.

Since textile and clothing is the PRC’s major net export, and one of the most important features of the Uruguay round of trade negotiations is the agreement on textile and clothing, it is important to examine the PRC’s standing in the international textile and clothing market. Table 3 lists the top 15 textile and apparel exporters in the US, Japan, and EEC market according to the 1990-1994 average value of textile and apparel exports.

<table>
<thead>
<tr>
<th>Table 3: Top 15 Suppliers of Textile and Apparel in Major Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1990-1994 average)</td>
</tr>
<tr>
<td><strong>US</strong> PRC; Hong Kong, China; South Korea; Mexico; Philippines; India; Dominican Republic; Canada; Thailand; Italy; Malaysia; Indonesia; Japan; Bangladesh; Sri Lanka</td>
</tr>
<tr>
<td><strong>Japan</strong> PRC; Republic of Korea; Italy; US; Hong Kong, China; Pakistan; Thailand; France; UK; Indonesia; Germany; India; Vietnam; Malaysia; Philippines</td>
</tr>
<tr>
<td><strong>EEC</strong> Germany, France, Belgium-Luxembourg, PRC, Netherlands, Turkey, United Kingdom, Portugal, Austria, US, Switzerland, Greece, Morocco, Tunisia, Republic of Korea</td>
</tr>
</tbody>
</table>

Note: Average value of textile and apparel exports to US, Japan, and EEC (calculated from COMTRADE data base). For details see Zhao (1996).

In the US, the PRC has the largest market share, with Hong Kong, China and Republic of Korea occupying the second and third place, respectively. Labor costs in these two economies, however, are significantly higher than in the PRC. They specialize in different segments of the textile and apparel markets and do not compete directly with the PRC’s exports. The other major suppliers in the US market are developing countries such as Mexico, Philippines, India, Dominican Republic, Thailand, Malaysia, Indonesia, Bangladesh, and Sri Lanka. Even though these countries individually account for a very small share of the US market, together their market share is bigger than that of the PRC. With liberalization of textile and apparel trade, they could become significant exporters competing with the PRC’s exports.
In the Japanese market, the PRC is the top supplier with the Republic of Korea second. Other exporters are significantly smaller compared to them. Countries at a similar level of economic development as the PRC, and hence potential competitors in the Japanese market, include Pakistan, Thailand, Indonesia, India, Vietnam, Malaysia, and Philippines. However, these countries only supply a small portion of the Japanese market and their market share as a whole is still significantly smaller than that of the PRC. The PRC so far dominates the Japanese market for the lower-end textile and apparel products.

In the EEC market, developed countries are the major suppliers of textile and apparel products. The PRC is the only major developing country supplier. As the MFA phases out in the future, protection for local producers in the EEC will decrease and the PRC shall be able to increase exports significantly.

Implications

As documented above, one feature of the PRC’s trade is its uneven distribution. This may be due to differences in the comparative advantages of different trading partners and does not necessarily indicate any wrongdoing on the part of the PRC. This has three implications. First, this distribution of the country’s foreign trade has had the unfavorable and negative effect of causing bilateral trade frictions, especially with its largest trading partner, the US. Trade friction with the US will not only affect the future of Sino-US bilateral trade but also the PRC’s entrance into the WTO.

Second, as a major textile and apparel producer, the PRC is expected to benefit greatly from the phasing-out of the MFA. However, not being a member of WTO, the PRC is not automatically entitled to the benefits of trade liberalization as stipulated in the agreement on textile and clothing. Hence it is important to examine the nature of the phasing-out and its implications on the PRC’s textile and apparel trade.

Finally, the PRC’s exports are mainly labor-intensive manufacturing products that face competition from other countries at a similar level of economic development such as Malaysia, Indonesia, Philippines, etc. To maintain competitiveness, it is important for the PRC to secure similar market access rights as these other countries. Hence, to assess the future of the PRC’s trade, we also need to examine issues such as WTO membership and antidumping.

Sino-US Trade Relations

Sino-US trade relations have not been smooth. The large trade deficit with the PRC reported by the US government has made the PRC an obvious target of US trade policy. Given the different structures of their economies, the Sino-US trade imbalance and the consequent tensions are very likely to continue for some time to
come. To promote US exports to the PRC, past bilateral negotiations have focused on two issues: intellectual property rights protection and market access.

The US is the only developed country that does not automatically offer MFN treatment to the PRC’s products. If MFN status were withdrawn, the country’s exports to the US would be subject to the so-called “third column” of “general” tariffs. These general rates, which essentially were those prevailing prior to the tariff cuts negotiated in seven multilateral trade negotiations leading up to the Uruguay Round, are five to ten times higher than prevailing US MFN tariffs (World Bank 1994). Imposition of such high general rates will significantly reduce the PRC’s exports to the US and would very likely lead to a major trade war that will be harmful to the US as well. Hence the possibility of MFN withdrawal under normal circumstances will be very low. MFN status is too strong an instrument to be useful for bargaining under normal circumstances. It can only be used under exceptional situations.

The special clause “301” is very flexible and can be an effective instrument for advancing US trade interests by threatening to retaliate if US demands were not satisfied.3 “Priority countries” and “priority practices” that pose significant barriers to US exports will be on the “Super 301” black list. The “Special 301” on the other hand empowers the trade representative to identify and investigate countries that maintain significant barriers and violate intellectual property (IP).

The “301” has been used as an important tool for handling trade disputes with the PRC in recent years. For example, the US initiated a “301” investigation against the PRC in October 1991, which led to the signing of the memorandum of understanding (MOU) on market access in October 1992. In this MOU the PRC committed to substantially liberalize its import regime. It included a scheduled elimination of 784 of a total of 1,247 (in 1992) categories of import quotas, licensing requirements, and import controls within five years (1992-1997). In 1995, a MOU on the enforcement of intellectual property protection was signed. The PRC efforts were considered unsatisfactory by the US, and the PRC was designated a “priority country” to apply the Special 301 in 1996. Later on trade threat was withdrawn after the PRC committed to improve enforcement of IP protection.

Another important US trade policy tool is antidumping measures (ADM). In recent years, antidumping cases in the US have surged dramatically and ADM are becoming an important trade policy instrument in the US. The US antidumping code is written such that it is very easy to conclude the existence of dumping (Finger and Fung 1994a,b). Since the PRC is not considered a market economy, surrogate

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3“301” deals with three types of practices that are considered harmful to US commerce: unjustifiable, unreasonable, and discriminatory. “Unjustifiable” practices are acts, policies, or practices that violate the rights of the US defined under trade agreement such as GATT, bilateral Voluntary Export Restraint Agreement, or agreement that settled a previous “301” case, etc. “Unreasonable” practices are acts, policies, or practices that are unfair and inequitable, though not necessarily a violation of explicit US rights. “Discriminatory” activities are acts, policies, or practices that deny national or most favored nation treatment to US goods, services, or investment (Finger and Fung 1994a, b).
countries are used for the construction of a fair value and for the determination of the dumping margin. This situation makes the PRC’s exports especially vulnerable to antidumping measures. In 1994, the PRC alone accounted for 22 percent (11 cases) of the total antidumping initiations in the US, much higher than the PRC’s share of US imports.

The PRC’s Entry into WTO

Major disagreements between the PRC and some member countries of the WTO include the PRC’s tariff and nontariff barriers to trade; its developing country status, which has important implications for the required pace of liberalization of its foreign trade; international trading rights of enterprises with foreign investment; transparency of the trade regime; right to retail establishments of foreign investors; commercial presence of foreign financial institutions, etc. In the following subsections we review them.

Import Tariff

One of the difficult gaps to bridge between the PRC’s offer and the demands of the WTO members is issue of the PRC’s high average tariff rates. Despite rounds of reductions in tariffs, the PRC’s average tariff rates are still high compared to both developed and developing countries. In 1995 the simple average tariff rate was 35.9 percent. In conformity with the commitments made at the APEC Osaka meeting, the PRC has lowered its average rate further to 23 percent and its short-term plan (1997-2000) is to reduce the simple average level of tariffs to around 15 percent.

Even though the simple average tariff rate is high, the PRC’s tariff revenue as a share of total imports (collection rate) has always been very low. In 1991, the collection rate was only 5.6 percent, and in 1994 approximately 5.5 percent, a level comparable to developed countries rather than developing countries. The low collection rates are mainly due to the wide coverage of imports that are entitled to duty exemptions and reductions (World Bank 1994). For example, concessional imports accounted for 34.8 percent in 1988 and 50.4 percent in 1991 of the total imports. In the auto industry, current tariffs range from 110 percent to 150 percent. In 1994, according to PRC customs, total car imports (including parts) amounted to 15.3 billion RMB while tariff revenue was 4 billion RMB. Hence the collection rate for the auto industry was around 26 percent in 1994.4

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4This information is taken from a presentation by PRC government officials at a WTO conference in Shenyang. The original material (in Chinese) was published in T&TW Volume 47 (1995).
The current tariff structure as explained above has many shortcomings. It is unfair, creates distortions in the economy, and is inefficient. Border trade, processing trade with imported materials, and barter trade are usually treated more favorably than other forms of trade. Enterprises with foreign participation such as equity investment or loans are treated more favorably. Special economic zones are also treated more favorably than inland provinces. So are investments in technology upgrading compared to infrastructure investments.

The PRC has recognized these shortcomings, and it seems to be adopting a new strategy of gradually reducing the average tariff rates and eliminating duty exemptions and special reductions to enterprises with foreign investment and special economic zones. This will create a level playing field for the PRC’s enterprises (i.e., “national treatment” for all enterprises irrespective of ownership) and inland provinces. It is a move in the right direction. However, instead of eliminating some of the liberal policies for special economic zones, the PRC should liberalize the whole economy in general and gradually move the country into a giant free market economy.

Nontariff Barriers and Market Access

In addition to standard nontariff barriers such as quota, licences, tests and standards, the PRC applies various administrative trade regulations and canalizes imports through designated foreign trade corporations (FTCs), and import controls. All constitute potential barriers to imports. Likewise, the PRC import regime lacks transparency and is very complex with many overlapping regulations. This complexity adds further difficulties to import activities. Therefore, WTO members have insisted on reductions in quotas, licences, and controls; conformance of the PRC’s tests and standards with international norms; and simplification of the import regime and transparency. The negotiation has been a learning process for both WTO members and the PRC on the functioning of the PRC import regime. This way, pressure from WTO members has contributed significantly to the more rapid liberalization of the import regime in recent years.

It should be noted that the PRC’s import quotas have not been strictly implemented. Imports of enterprises with foreign investment often do not require import licenses. For example, the PRC quota for wool imports in 1994 was 140,000 tons but actual imports were 310,000 tons, of which only 26,000 tons were classified under quota and the rest were legally imported via processing trade.

Bilateral negotiations with the US is also helping to speed up the reform of the PRC’s import regime. From May 1991 to October 1992, the PRC and the US have conducted nine negotiations and reached a memorandum of understanding on market access—the most important document for the PRC’s liberalization commitments in the area of quotas, licenses, and import controls. The memorandum covers a wide
variety of issues including transparency, quantitative restrictions on imports, import substitution, standards, and testing. The annex contained a scheduled elimination of 784 of a total of 1,247 (in 1992) items (in 8-digit HS system) of import quotas, licensing requirements, and import controls within five years (1992-1997). The PRC has instituted a series of liberalization procedures according to the commitment of the memorandum. In 1992, 8 categories of quotas, licensing, and import controls were eliminated. At the end of 1993, 283 tariff lines of quota and licensing requirements were eliminated, and 165 tariff lines of electrical and machinery products temporarily prohibited from imports were abolished. In May 1994, 283 items of quota and licensing requirements were also eliminated. The PRC is not satisfied with the US effort in helping the PRC to join the WTO, as promised in the memorandum, and hence the elimination of some control measures was delayed. After rounds of negotiations, implementation of the memorandum of understanding resumed in 1995.\(^5\)

**Foreign Trading Rights**

In market economies, companies can freely engage in foreign trade activities. According to the PRC’s regulations, however, only approved foreign trade corporations can engage in foreign trade activities. Some large Chinese manufacturing enterprises, upon approval from government, are allowed to trade their products. Enterprises with foreign investment have always been allowed to trade products related to their own production but they are not allowed to engage in purely trading activities. This is another difficult issue in the PRC’s negotiations to join WTO. The PRC offered to convert its approval system into a registration system within six years after being accepted into the WTO. The main concern of the PRC’s government is that allowing enterprises to freely conduct international trade might affect the stability of the trade system.

In 1994, there were already over 10,000 exporters and importers in the country and competition among foreign trade corporations was already very intense. In addition, with a few exceptions, there are very few restrictions on export activities. As documented above, due to pressure from the international trade community, the import regime has also been significantly liberalized in recent years. The fear that allowing companies to freely engage in trade activities will bring chaos to the foreign trade sector is unfounded. On the contrary, opening up foreign trade business will improve the efficiency of the system and promote exports even further.

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\(^5\)Data in this subsection are taken from a conference presentation by PRC government officials at a WTO conference organized by the WTO in Shenyang. The original material (in Chinese) was published in T&TIW Volume 47 (1995).
Developing Country Status

This is probably one of the stickiest issues in the PRC’s bid to join WTO. If given a developing country status, the PRC will be allowed to liberalize its trade regime at a lower speed and will benefit in terms of accessing other countries’ markets. The PRC’s per capita GNP, even measured using purchasing power parity, is still low. The insistence of WTO member countries for the PRC to enter WTO as a developed country is due to their concern of a possible flood of exports from the PRC in the international market. Current negotiations seem to indicate that this issue will be “treated on a sector-by-sector basis, with some sectors being given a less-developed country period of adjustment, but others being more open immediately” (Harrold 1995, 144).

Other Issues in the PRC’s Accession to WTO

It is very likely that developed countries will insist on some form of safeguard clause in case of import surges from the PRC. There might even be a period for “transition” trade policy review. In addition, the US might insist on invoking “Article 35, which permits a WTO member ‘not to participate’ in the granting of rights to a new member, and to continue to apply discriminatory treatment of the PRC. The US would invoke the Jackson-Vanik amendment of the 1974 Trade Act (which lists the PRC by name), which is the clause under which most-favored nation (MFN) treatment for the PRC has to be approved annually” (Harrold 1995, 143). The US is the PRC’s most important trading partner. If all these conditions are attached to the PRC’s accession treaty, the latter’s entrance to WTO will not be the end of the trade frictions; rather it will be just the beginning of continued trade negotiations in the future. It is not clear whether the PRC is willing to accept all these special “attachments”.

In sum, joining WTO will help the PRC to secure similar market access as its competitors in the international market, which is important for maintaining economic growth in the PRC. However, there are still many unresolved issues and it is difficult to predict when and under what conditions the PRC will become a member of the WTO. However, all the abovementioned questions boil down to one point of concern: the speed of foreign trade liberalization in the country. It should be noted that the speed of trade liberalization is related to the country’s overall speed of economic reform. Even though there are cases where nonstate-owned enterprises (such as some joint venture companies in the auto industry) argue for protection of domestic market, in general state-owned enterprises (SOEs) are the most vulnerable to foreign competition. This is not only because SOEs are not as competitive as nonstate-owned enterprises but also because they are heavily concentrated on the more capital-intensive sectors of the economy while nonstate enterprises are usually located in the
industries of the PRC’s comparative advantage, such as labor-intensive industries. As economic reform in general continues, the PRC’s enterprises will be more competitive, the economy will be more market-oriented, and there will be less need for high tariffs, nontariff barriers, and controls on trading rights to protect domestic companies. Therefore, the overall speed of reform is a key determinant of when and under what conditions the country will enter the WTO.

Phaseout of the Multi-Fibre Arrangement

The MFA was initially intended to provide temporary protection for importers of developed countries by regulating an “orderly” growth of textile and clothing exports from developing countries. However, the Arrangement has gradually become one of the major obstacles against free trade and it has seriously limited textile and clothing export growth of developing countries. The MFA took effect on 1 January 1974 and lasted four years. After that it was extended five times. The PRC formally joined the Arrangement in January 1984.

The MFA phaseout is considered one of the major achievements of the Uruguay Round of negotiations of GATT. According to the 1994 final decisions of the Uruguay Round, the MFA will be gradually phased out within a period of ten years (1 January 1995 – 1 January 2005). After the 10-year transition period, textile and clothing trade will be fully integrated into the WTO system. In the long run, major exporters of textile and clothing products whose quotas have been binding in the past are expected to benefit from this agreement. Most exports of Asian countries and the PRC belong to this category.

During the transitional period, however, the conclusion is not that straightforward. The transitional arrangement has the following characteristics. First, it is divided into four stages. The first three stages will integrate no less than 16 percent (1 January 1995 – 31 December 1997), 17 percent (1 January 1998 – 31 December 2001), and 18 percent (1 January 2002 – 31 December 2004) of the total 1990 imports (in volume terms), respectively. This leaves 49 percent of world trade in textile and clothing to be integrated on the last day of the agreement, i.e., on 1 January 2005.

Second, importing developed countries are free to choose the products to be integrated at each stage with the only constraint being that they must include tops and yarns, fabrics, made-up textile products, and apparel. They are also free to decide how many products from each category are to be integrated at each stage. Note that these products include all textile and clothing products, whether restricted or not. With this flexibility, restraining countries are likely to choose unrestricted products to integrate in the early stages and thus enable them to effectively delay the end of binding MFA restrictions. Indeed,
none of the products that the US will be integrating in the first stage were
covered by US quantitative restrictions in place in 1990, the most recent
year for which comprehensive data is available. Moreover, there are no
MFA categories included in their product list. While the integration list of
the European Union includes several MFA categories and none of these
included any bilateral quota binding in 1990 (Whalley 1995, 11).

Third, based on the quota growth rate effective 31 December 1994, quota
growth rates of 16, 25, and 27 percent will be applied during the three stages of
transition.

Given these considerations, the adjustment of the MFA phaseout will be heavily
back-loaded and the liberalization effects of the MFA phaseout during the transition
period will be very limited. Indeed, as has been shown by many studies (for example,
Cline 1995, Hertel et al 1995, and Zhong and Yang 1996), there will be no signifi-
cant reductions in the extent of quota restrictions during the transitional period.
Further, the Agreement on Textile and Clothing is essentially an extension of the
MFA for another 10 years (Zhong and Yang 1996).

Under the MFA, special safeguards beyond those already allowed under GATT
Article 19 are also allowed during the transition period. When imports of a textile
and apparel product cause serious damage and the damage is attributed to the
Agreement, importing countries are allowed to impose new restrictions. This feature
of the Agreement further protects importing country producers from legitimate inter-
national competition.

Since the PRC is not yet a member of WTO, it is not automatically entitled to
the benefits of the MFA phaseout. However, as explained earlier, the full benefits
of the MFA phaseout will not be realized until years later, at which time the PRC may
have already become a member of WTO. During the transition period, the liberaliza-
tion effects of the MFA phaseout are very limited and other competitors of the PRC
will not have more advantages than the PRC. Not being a member of WTO will of
course make the PRC’s textile and apparel negotiations marginally more difficult.

**Antidumping Measures**

**Changing Trade Policy Alternatives**

**after the Uruguay Round**

Before the Uruguay Round of negotiations, there were many ways to protect
domestic industries from foreign competition. Governments could use antidumping
measures and gray area measures such as voluntary export restraints (VERs) admin-
istered by the exporting country (or industry) to protect domestic industries. In the
area of textile and clothing trade there was the MFA, which was supposed to discipline world trade in textile and apparel so that it would proceed in an orderly fashion. When a developing country experiences balance of payments (BOP) problems, Article XVIII:B of the GATT allows special intervention in international trade and the basic GATT articles allowed them to provide protective measures for less competitive industries. Also, Article XVIII:A authorized developing countries to protect individual industry under circumstances not related to safeguard measures (SGM). In the area of agricultural trade, there were numerous unbound tariffs and other devices like the EU variable levy and the GATT waiver for US agricultural programs to provide protection without SGM.

After the Uruguay Round, several things have happened. First, one important achievement of the Uruguay Round is Article 11 of the SGM Code, which provides that a WTO member state “shall not seek, take or maintain any voluntary export restraints, orderly marketing arrangements, or any other similar measures on the export or import side.” Government encouragement or support of equivalent measures by private enterprises is also prohibited. Existing VERs are to be phased out over four years.

Second, the Uruguay Round has led to substantial increase in the number of bound tariffs in developing countries, the gradual phaseout of the MFA, the liberalization of agricultural trade, and increasing pressure on the use of BOP exceptions. These changes further liberalized foreign trade and limited the tools available for protecting domestic industries.

With these changes, legally sanctioned trade remedies under WTO designed to handle unfair trade practices such as ADMs or smooth transitions associated with trade liberalization, could potentially be used/abused for the purpose of protecting domestic producers from legitimate international competition. Compared with ADM, SGM has the disadvantage that it has to be exercised on a MFN basis. Hence the cost of exercising the SGM is high in general and it is unlikely to be more popular than the ADM.

Unlike tariffs, nontariff measures are difficult to evaluate and compare directly. The WTO dispute settlement (DS) system provides interpretation and implementation of rules governing the use of nontariff trade remedies such as antidumping and safeguard measures. However, the WTO DS system does not have as much enforcement power as domestic litigation. Discipline on nontariff trade remedies depends both on the WTO DS system and bilateral bargaining power. WTO is not likely to be able to contain the abuse of ADM and ADM would probably be a popular tool of protectionism in the future. Even though the antidumping Code of the Uruguay Round has limited the purely protectionist element and constrained the use of the ADM in general, it will not be enough to reduce the allure of antidumping.6

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6For a more detailed discussion of changing policy alternatives see Abbott (1995).
Increasing Popularity of Antidumping Measures and Vulnerability of the PRC’s Exports

Antidumping has become the most popular trade remedy among the industrialized countries. Recently, developing countries have also joined the trend. In 1958, slightly over three dozen antidumping directives were in effect in all GATT member countries. In 1990, Canada alone had over 100 (Abbott 1995). In the US, one antidumping case was initiated in 1960, nine in 1970, 26 in 1980, and 42 in 1990. In 1992, antidumping cases reached its peak of 107. In 1994, 50 cases were initiated.7

The PRC has also been affected negatively in this surge of antidumping action. Antidumping cases against the PRC have been increasing and a significant portion of the cases is initiated in the US. In 1993, the PRC’s exports of color television sets, bicycles, microwave ovens, and electric fans were targets of antidumping investigations in the US and South American countries. The PRC’s textile and apparel, and sports footwear products have been the target of antidumping action in Japan, the European Union, and South American countries. Not only have major developed countries taken antidumping action against the PRC’s exports, but many other countries have also used antidumping as an effective tool to deter the PRC’s exports in recent years. Since 1992, Japan, Republic of Korea, South Africa, Denmark, Mexico, Argentina, and Brazil have all filed antidumping complaints against the PRC (Wang 1994, Zhang 1994).

According to Zhao (1996), US antidumping practices have the following characteristics.8 First, there is a clear time trend. US antidumping initiations have been increasing over time. Second, the total number of antidumping initiations is positively correlated with US total imports and there is no correlation between the number of antidumping initiations and total US trade deficit. Third, the number of antidumping actions against a certain country is positively correlated with its trade deficit with the US. Therefore, when total US imports surge, antidumping action will be likely to increase and the target country is usually the country with higher deficit rather than the country with higher exports to the US. The PRC is already the second largest deficit trading partner of the US after Japan. It is not surprising that the PRC has become an important target of US antidumping action.

Several factors contributed to the increasing antidumping attacks on the PRC’s exports. First, the PRC is usually classified as a nonmarket economy and, as mentioned before, surrogate country cost data instead of the PRC’s production cost data is used for the determination of dumping and calculation of dumping margin. Surrogate country data cannot accurately reflect the PRC’s costs of production and this can

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7Data is from Central Records Unit, US Department of Commerce and International Trade Administration. For details see discussions in Zhao (1996).
8These conclusions are derived from regression analysis using time series and cross section data on US antidumping cases against various countries. Details are in Zhao (1996).
lead to tremendous arbitrariness in the antidumping investigations against the PRC’s exports. This arbitrariness is usually biased in favor of the initiating country and can lead to easy determination of dumping and high dumping margins. One example is the reported 1105 percent dumping levy imposed on the PRC’s footwear exports in Mexico.

Second, lack of legal personnel, high legal fees, and unfamiliarity with foreign antidumping laws make it very difficult for the PRC’s enterprises to defend themselves effectively in foreign courts. The high cost of “fighting back” has deterred many PRC firms from taking legal action. Sometimes they will not even attempt to respond to foreign antidumping complaints, further encouraging foreign antidumping action against the country’s exports. Among the 36 cases initiated against its exports from 1980 to 1992 in the US, the PRC prevailed only in seven cases, while three cases were withdrawn. Seventy-five percent of the antidumping complaints resulted in the imposition of dumping levies ranging from 2.7 to 210 percent.

The result is that antidumping measures can be very damaging to the country’s exports. For example, after the imposition of 127.27 percent dumping duties in 1985, exports of natural bristle paint brushes and brush heads decreased from $6.8 million to $0.22 million in 1986 and $0.0834 million in 1988. Barium chloride exports were $470,000 in 1983. After the imposition of a 58 percent dumping duty in 1984, exports were reduced to zero. In 1982, cotton shop towels exports were $6.8 million. After the imposition of dumping duties of 38.8 percent in 1983, exports have decreased steadily. In 1988 exports of cotton shop towels had come down to $1 million only (Cai 1994).

**Conclusion and the PRC’s Strategy**

The fundamental cause of the Sino-US trade friction is the huge trade deficit reported by the US government. Given the economic structure of the two countries, the deficit will likely to continue for some years to come and so will Sino-US trade tension. There are many trade policy tools available to the US government to pressure the PRC to obtain more favorable trade conditions, which include US 301 and ADM as well as the threat of nonrenewal of the MFN status.

Joining WTO will allow the PRC to benefit from low tariff rates and the 10-year phasing-out of one of the most important quantitative export restrictions, the MFA. It will also allow the PRC to benefit from the strengthened WTO dispute settlement system and will give the PRC more bargaining power in case of trade disputes. A relatively favorable trading environment allowed the PRC to reap the benefits of its reform policy fairly quickly and to establish momentum for continued economic reform. Maintenance of a relatively friendly external trading environment is important for the PRC’s economic growth in the future. Without being a member
of WTO, the PRC risks not being able to compete with other countries with similar comparative advantages. However, even if it cannot join the WTO in the short run, the PRC should not be overly pessimistic for the following reasons.

First, if the PRC is able to maintain its MFN status with the US, the PRC will be able to enjoy the benefit of low tariffs provided by the WTO.

Second, one of the major achievements of the Uruguay Round of negotiations is the 10-year phasing-out of the MFA. Textile and apparel are the PRC’s most important export categories, and not being able to participate in this phasing-out can potentially be very damaging to the PRC’s exports. However, it should be noted that the agreement on textile and clothing (ATC) trade allows developed countries tremendous flexibility, and most of the benefits are back-loaded so they will not materialize until the end of the phasing-out period. By that time the PRC should have already joined the WTO, and the ATC agreement should become a nonissue then.

Third, during the transitional period of the agreement, if developed countries are serious about the full implementation of the MFA phasing-out, there are still reasons to believe that the PRC should be able to obtain reasonable market access to foreign markets, as it did before. This is because even without the PRC’s participation, free textile and apparel trade will significantly enlarge developing countries’ market share, so that developed country suppliers will have to turn to the capital-intensive and technology-intensive segments of the industry for survival. Hence, the PRC will not be competing directly with developed country producers. In this case, restricting the PRC’s textile and apparel exports will only increase the price of the low-end textile and clothing products, which is harmful to developed country consumers, especially low-income consumers, without helping developed country producers. It is not in the interest of developed countries to restrict the PRC’s textiles in favor of producers from other developing countries. The recent Sino-US textile and apparel quota agreement of February 1997 is consistent with these predictions.

Fourth, in the area of antidumping, the best strategy seems to be setting up the PRC’s own antidumping provisions, not simply in order to protect domestic industry, but, more importantly, as a strategic move to deter extensive, unfair foreign antidumping actions against the PRC’s exports. Also, it is important for the PRC to speed up market reform to reduce the PRC’s vulnerability to foreign protectionist trade policies. One issue that is especially important for the PRC in the area of antidumping is the use of surrogate countries in the construction of normal value. This methodology introduces a tremendous amount of arbitrariness into the determination of dumping and calculation of dumping margins. With regard to antidumping action in general, it is difficult to resort to negotiations to reduce the protectionist effect of ADM. And with respect to the use of surrogate countries, since it is specifically used against the PRC, the latter can negotiate directly with the affected countries to determine the fairest methodology of constructing normal values for its exports.
Finally, the continued reform in all areas in the PRC has been the fundamental driving force of the PRC’s economic success in the past and will continue to be the most important factor of economic success in the intermediate future. As the PRC’s economy becomes more market-oriented, the domestic producers will be more competent and this will in turn reduce the short-run adjustment costs of opening the PRC to foreign competition. Reduced adjustment costs will reduce the political costs associated with trade liberalization and make it more likely for the country to further reduce trade restrictions on a unilateral basis. A less restrictive trade regime will allow the PRC to get reciprocal treatment from foreign countries. And a rapidly growing economy will make the country one of the largest potential markets in the future, and will provide the ultimate bargaining chip for the PRC to obtain better market access abroad. Hence continued reform is the key to the future success of the PRC economy.

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