The Aftermath of China's Accession to the World Trade Organization

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JAMES C. HSIUNG

After almost fifteen years of long and hard negotiations, the People's Republic of China was finally, at the end of 2001, admitted to the World Trade Organization (WTO) ("WTO Ministerial" 2001). By prior agreement, its accession was followed in tandem by Taiwan, admitted under the nomenclature of "The Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu." The arrangement was a compromise to avoid the stigma of having "two Chinas" or "one China, one Taiwan" in the organization.

With few exceptions, the U.S. mass media treated the landmark development as a nonevent. For China, which is fully aware of the advantages and disadvantages of WTO membership, the most important political significance of the accession is that it confers the right to act as a "player of equal footing" in the arena of trade and, by extension, on the world political stage.[1] Most analysts and U.S. government officials who had occasion to comment on the event focused on the economic aspect, such as its impact on the world economy as well as on the Chinese economy.[2]

Most available commentaries were positive, even exuberant, about the economic impact on both China and the world. The most exuberant and sustained comments came from the *China Business Review (CBR),* a publication of the U.S.–China Busi-

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James C. Hsiung is a professor of politics at New York University.

1. Comment by Long Yongtu, Chinese vice minister of foreign trade and economic cooperation, in *Renmin ribao* (People's Daily), August 19, 2002, 1.

2. For example, see statement by Shaun Donnelly (2002), acting secretary of state for economic and business affairs, U.S. Department of State, to the U.S.–China Commission Public Hearing on WTO Compliance and Sectoral Issues, January 8, 2002.

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ness Council in Washington, D.C., which ran a series of projections that began on the eve of China's actual accession. The *CBR* series focused primarily on the economic implications, touching only occasionally on collateral social or legal issues (for example, Chan 2001; Goldstein and Anderson 2002; Ma and Wang 2001; Zeng 2002). Elsewhere, other commentaries touched on the resultant challenge for domestic reforms, including reform of Chinese laws. On the latter, the Bush administration, quite atypically, seemed rather upbeat, expecting that WTO regimes will encourage application of the rule of law in China (Aldonas 2002).[3]

Some spoke of the social effects within China as it opens its previously closed doors, especially in agriculture and the service industry, to fellow WTO members. Such effects include social unrest—possibly even social turmoil (Eckholm 2002, 1)—stemming from the expected rise in unemployment and income disparity as well as in the growth of a more assertive middle class (Shen 2002, 30). Rarely, if at all, did any discourse explore the possible political impact on China's international status and on its role on the world stage. This omission is odd, considering that the inclusion of China among WTO's ranks "makes the WTO a truly global organization," as expressed by Ambassador Sergio Marchi (2002), chairman of the WTO General Council.

To be sure, some discussions did cover possible "political change" if China keeps its promise to live up to WTO rules and to the terms of the many agreements that it concluded with other members in the run-up to its accession (Pei 2001). As a whole, however, these possibilities were limited to the area of domestic change in China. Other discussions touched on political effects in the context of the changing relations between mainland China and Taiwan after both entered the WTO (Hsiung 2001a; J. Huang 2002; Sutter 2002). None of these discussions, however, considered the international political implications of the development. Much less could one find a comprehensive yet balanced and succinct presentation of the various key issues and ramifications of China's WTO entry.

In this article, therefore, I present such a comprehensive survey and analysis. To fill a glaring gap in the existing literature, the discussion pays special attention to the international dimension, in particular to ascertaining how WTO membership may bear on China's world status and affect Chinese relations with key players in the world. The word *aftermath* in the title indicates that the article does not go into the process of China's negotiations for its WTO accession, which is passé and adequately covered in the literature;[4] it is meant to convey a broad range of connota-

3. In early 2002, Beijing announced its determination to complete its legal reforms carried on over the past two decades, doing away with outdated laws and enacting new laws in conformity with its WTO obligations. See *Renmin ribao* (People's Daily), April 10, 2002, 1. Beijing, in the meantime, started to adopt international standards and "advanced foreign standards" to be China's own, beginning in such areas as shipping, textiles, chemical industry, metallurgy, natural gas, printing, and so on (*Renmin ribao,* July 27, 2002, 1).

4. See, for example, Yang and Cheng 2001. The same issue of the *Journal of International Economic Law* in which the Yang and Cheng article appears also provides detailed information under the title "China's WTO Accession: Survey of Material."

tions such as "effects," "impact," "upshot," "implications," and "significance" of the landmark development.

China's WTO accession should not be treated as a one-shot event in isolation. It should be viewed more appropriately in the context and as a culmination of the country's sustained economic success since the late 1960s, its economy having grown some eightfold in the past twenty-five years. In this broader view, it is easier to grasp the economic and political implications of what was actually a crowning event of China's post-Mao saga after a fifteen-year quest, an event with far-reaching consequences. Only thus viewed, moreover, will its larger implications for the international political economy come into focus.

In order to put the issues in proper perspective, we need to consider the hidden theoretical implications of Ambassador Marchi's point that China's entry makes the WTO a "truly global organization." The thinking behind the remark substantiates the claim of the onset of a putative age of geoeconomics that many believe is upon us with the turn of the century (Hsiung 2001b, 26–29, 345–47). *Geoeconomics* is a shorthand label for the rise to supremacy of nations' economic security (ecosecurity) over their traditional national-defense concerns (military security). Ecosecurity denotes access not only to vital natural resources and markets in the global economy, but also to a fair share of the collective goods produced and sealed through multilateral regimes and institutions (as epitomized by organizations such as the WTO) in the areas of international trade, finance, and investment. In this frame of reference, many of the seemingly unrelated economic implications of China's accession gain a coherent political meaning.

My discussion covers seven basic aspects of this situation: (1) the effects on China and the world economy; (2) the "China threat"; (3) the implications for the United States and U.S.–China relations; (4) the impact on the Asian region; (5) relations between China and the EU; (6) the significance for the future of "Greater China"; and (7) the possible meaning for China with regard to its role in world affairs—whether or not WTO membership confers a major-power status that has eluded it in the past. I have to be selective, but I also try to offer as broad a coverage as manageable within the space of an article. A caveat is also in order. Because China's entry into the WTO took effect only in December 2001, the analysis here has to rely in part on incomplete data and on reasonable projections, to be duly updated as new evidence becomes available.

Effects on China and the World Economy

WTO membership requires certain fundamental changes of trade and investment policies, which can be expected in the five years following accession. These changes include: (1) tariff reductions for both agricultural and manufacturing products; (2) elimination of nontariff barriers in industrial sectors; (3) agricultural trade liberalization, including the accelerated growth of import quotas for grains and plant-based fiber, the elimination of such import quotas, and the replacement of the quota system by a 15 percent tariff by 2005; (4) opening up of major service sectors; (5) phasing out of multifiber arrangement quotas on textiles and clothing by North American and European countries; and (6) an increase in actual foreign direct investment (FDI) flows by more than 11 percent in the next five years (Ma and Wang 2001, 22).

Analysts do not agree, however, on what all these changes will add up to. Pessimists and optimists obviously disagree widely. Ironically, there seems to be more pessimists in China than elsewhere (Cheng 2002, 4–7; Yong Wang 2000, 54). The *CBR*—which, as noted earlier, was the most upbeat—estimated that China's WTO accession and consequential FDI growth would add approximately 0.45 percentage point to the annual growth rate of Chinese gross domestic product (GDP) in the first five years. This gain would come from three sources: *(a)* more efficient allocation of production factors through increased specialization according to China's comparative advantage; *(b)* more rapid physical capital accumulation, which would accompany the gains in efficiency; and *(c)* more rapid growth of factor productivity as a result of technology transfer via the expansion of capital and intermediate-goods imports (Ma and Wang 2001, 22).

The model used in the *CBR* study showed that with China as a WTO member, Chinese exports and imports would grow at higher rates, by 6.7 percent and 5.2 percent, respectively, over the ensuing five years. It also predicted that the greatest increases in Chinese exports would involve labor-intensive products, such as apparel, leather, footwear, and nonagricultural products. The greatest increases in imports, on the other hand, would involve land- and capital-intensive products, such as grains, oilseeds, plant fiber, and motor vehicles. Sectors that would lose the most after China's accession include motor vehicles, grains and oilseeds, and plant-based fiber. The *CBR* model predicted that production in these three sectors would decline by approximately 4–5 percent in the first five years.

However, the dismal predictions for the automobile industry did not come true, as gauged by evidence from the first year of China's WTO membership. Instead of hurting, the Chinese auto industry showed signs of gaining new vitality, as the world's top automakers rushed to set up new ventures in China. The number of entrants was so large that, according to one study, it made China an "emergent major car maker" in the world (Cheng 2002, 16). In a landmark move, Japan's Honda Motor Co. announced in July 2002 that it planned to build a factory in China in which it would make cars exclusively for export to Asian and European markets. Honda's plan highlights a potentially significant shift in the global auto industry in that China is now seen not just as a huge market, but also as a base for auto exports. Cheng (2002, 16) cites a report to that effect from the *Wall Street Journal*, July 11, 2000, A12.

According to *CBR*'s projections, even the losing sectors in China would find their production at a higher level by the fifth year after WTO entry as a result of growth in domestic demand. Apparel would head the list of winners among Chinese exports, showing a 60.6 percent cumulative gain by 2006, followed by electronics exports with a 26 percent gain (Ma and Wang 2001, 25, table 3). This projection of net effects finds corroboration in one available study concluded subsequent to China's entry into the WTO (Cheng 2002, esp. 24–27).

In addition, the *CBR* model predicted that China's WTO accession would raise the annual growth rate of real GDP in the United States, the European Union (EU), and Japan by approximately 0.1 percentage point each over the first five years.[5] Other countries, including land-abundant product suppliers such as Australia and New Zealand, likewise would benefit from China's WTO accession (Ma and Wang 2001, 25).

Another assessment came from a study of the impact of the double entry of China and Taiwan into the WTO (Chow and Wang 2002), which projected similar increases in aggregate world trade in the decade following the event. The accumulated growth of the world's GDP will increase by an additional 0.19 percentage point in the first decade after the double entry. Real exports and imports of the world will increase 1.87 percentage points and 1.73 percentage points, respectively, from 2002 to 2011. In real terms, the increases will be U.S.$854.1 billion and $1,009.8 billion, respectively. In addition, cumulated social welfare of the world will increase by $61.7 billion annually during the decade (Chow and Wang 2002, 25). However, except for Latin America, most developing countries will be affected adversely, as shown by the decline of their real exports in the next ten years. The same declining trend in exports will hit the former Soviet bloc and the rest of the world (Chow and Wang 2002, 26). Whereas the United States and Japan will gain from China's accession (along with Taiwan's entry), the fifteen EU countries and certain other Organization for Economic Cooperation and Development (OECD) countries, excluding the United States and Japan, may suffer (Chow and Wang 2002, 34). Except in the latter areas, this assessment agrees for the most part with the *CBR* projections regarding the impact of China's WTO entry on the world economy.

This rosy picture for China has a dark side, however. According to the World Bank, China has 140 million surplus workers and an estimated 16 to 18 million unemployed urban workers. In addition, 100 million rural workers are estimated to be out of work seasonally. In the long run, opening China's economy should generate employment, particularly in labor-intensive service industries. Nonetheless, industrial restructuring is necessary in the severely inefficient industries plagued by excess capacity, including the aluminum, auto, cement, light industry, petrochemical, and steel industries. They will continue to struggle in the initial years after China's accession, which will also bring about greater competition for and phaseouts of state subsidies. Many small or inefficient firms will sink or be swallowed by larger ones. The survivors will be able to compete better internationally ("Impact" 2000, 40).

During the transition, however, as one report from Hong Kong noted by the end of the first year of China's WTO membership, tens of millions of jobless workers

5. Chow and Wang (2002) agree with this projection in general but see a negative impact, instead, on the EU.

laid off by state-owned enterprises "are excluded from China's economic miracle." Cities were losing the race to create jobs and preserve stability amid massive layoffs by state-owned enterprises squeezed by competition with private and foreign firms and by the need to streamline their management in order to keep afloat in the post-WTO era (Murphy 2002, 31).

The challenging task in China's adjustments to WTO membership is not just economic policy reform. China also requires a sweeping legal juggernaut, spinning out new laws and revising old ones, to ensure that the domestic regimes regulating China's foreign economic relations will conform to and dovetail with the WTO regimes. This coordinated legislative spurt, which began in earnest in 1999, followed a broad purposive review of all existing laws or legal lacunae related to China's foreign economic relations, conducted at both the national and the local level over more than a decade. By and large, the massive legislative efforts were aimed at achieving four basic goals:[6] (1) to have in place a complete set of transparent laws governing foreign trade; (2) to perfect foreign-investment laws and provide national-treatment guarantee; (3) to initiate laws on the opening of service industries; and (4) to ensure legal protection of fair competition in accordance with WTO rules.

By the end of 2000, legislation had been completed in seven areas, including customs, product quality, patent, contract, foreign investment, etc. The remaining legislative agenda pertained to matters such as merger, small and medium business protection, antitrust, government purchase, bankruptcy, and antidumping.[7] Some of these laws simply caught up with changes in practice introduced in recent years, many of which were giant steps China had taken to accommodate foreign investors. For example, in 2000, for the first time ever, the total number of companies *wholly* owned by foreign investors in China overtook the number of companies jointly owned by Chinese and foreign investors. Wholly foreign-owned firms, previously unknown in China, now account for 45 percent of the total capitalization of all companies with foreign investments ("In Preparation" 2001, 1).

China is known as the world's largest source of counterfeit products, which account for approximately 8 percent of the country's GDP.[8] During the run-up to its WTO accession, the government agreed to establish intellectual-property (IP) laws and enforcement procedures that would comply with the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. This commitment entailed a tough effort on Beijing's part to add, delete, or rewrite hundreds of laws in order to have a domestic IP regime that would live up to its WTO commitments. This domestic fortified IP regime now governs patents, trademarks, copyright, computer software, integrated circuit protection, and the vast area of compliance enforcement

6. See *Liang-an ching-mao* (Straits Business Monthly, Taipei) 108 (September 2000), 6–9.

7. *Liang-an ching-mao* 108, 6–9.

8. *China Business Review* 27, no. 3 (2000), 22.

(Moga 2002). Although China's enforcement system as yet cannot offer foolproof guarantee of the "expeditious remedies which constitutes a deterrent to further infringements," as envisioned by TRIPS article 41.1, the Chinese Criminal Code makes criminal sanctions available where the conditions are "serious." Most important, IP consciousness is rising in China, and the media's coverage of violations and IP court cases has played an important part in educating the public (Moga 2002, 16).

The "China Threat"

In view of the foregoing impressive assessments regarding gains and losses, the first question to ask in considering the external political effects is what the Chinese WTO entry implies for those in the outside world haunted by fears of the "China threat." After all, that scare accounted at least in part for the U.S. hesitancy that had caused the long delays in China's admission to the WTO in the first place.[9] Does the admission of China into the WTO alleviate or, on the contrary, magnify the "China threat"? This question is a legitimate one, considering that China's WTO membership, according to economists, will boost its already hefty—hence threatening—rate of annual GDP growth, which has remained consistently in the 7–13 percent range for nearly three decades, even through the Asian financial crisis of 1997–99, when other high-growth Asian economies went under.

By September 2002, China's official foreign reserves had reached $258.6 billion, the world's second largest, after Japan's. Scarcely five months after China's accession, the WTO announced in a report released on May 2, 2002, that according to gross national product (GNP) figures China's economy had become in 2001 the world's fourth largest, exceeded only by the economies of the EU, the United States, and Japan. In terms of imports-exports alone, China ranked sixth among the world's top thirty trading nations.[10] What a scary report to the China threat faithfuls!

Moreover, WTO membership added three additional sources of fear to the corpus of the China threat theory. One is that China may become a "sink for cheap labor," thus causing a loss of jobs in the United States and other developed countries (Kurlantzick 2002). The second is a concern, echoing the all-eggs-in-one-basket logic, that as a result of its new WTO advantage China may become the world's common factory. What if something should go wrong with this common world factory (Garten 2002)? The third source of worry comes from the likelihood of internal insta-

9. True, the Tiananmen crackdown of 1989 only reinforced China's image as a ruthless regime inspiring awe and fear. Other factors that might have caused the delay was China's insistence that it be considered one of the original founders of the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO (the reason being that the Chinese relationship with GATT was terminated by the Republic of China government on Taiwan, then acting in the name of "China"), and that it be admitted as a developing country, not as a developed country.

10. The news about the WTO report was carried in the *World Journal,* a Chinese-language newspaper in New York, May 3, 2002, 2.

bility of China, as the burden of WTO obligations might precipitate domestic socioeconomic turmoil. A report from the Institute for National Strategic Studies, National Defense University, in Washington, D.C. (Krawitz 2002), is premised on exactly this speculation. Though not predicting outright that China will become a "regional aggressor" in the wake of its trade opening, the report considers a "worst case scenario" that has "Beijing failing at sustainable reform and finding itself hard-pressed to manage resulting economic and social ills and civil unrest." In that event, it adds, "the [Chinese] leadership might encourage nationalism and military aggressiveness to ensure its survival. Internationally, China could become mired in a downward spiral of cheating, trade disputes, sanctions, and retaliation" (Krawitz 2002, 1, 4).

Ironically, the China threat imagery has provoked an equally scary view of the country's imminent collapse, allegedly in the next ten years (Chang 2001; Wang and Hu 2001). The specter of a Chinese implosion or financial collapse (Lague 2002, 35) in turn has fanned fears about who is going to feed the 1.3 billion Chinese in that eventuality, reminiscent of the "boat people" spilling from Vietnam after its fall to communism, but on a much larger scale. On balance, however, the scare mongers far outnumber the collapse mongers and seem to have a larger following.

The ultimate source of the fears gripping those obsessed with the China threat is the country's economic dynamism, or the potential economic power that China might wield, which in the nature of things—especially when compounded by the geoeconomic factor of the new age noted earlier—poses a political threat. This economic power is only magnified by the expected gains accruing to China from its new WTO membership. If this view is valid, we need to question what has made the alarmists believe that China's economic power will necessarily translate, by itself, into a threat. (I have pursued this question elsewhere [Hsiung 2002] and so do not duplicate that inquiry in the present article.)

Not everyone agrees with the alarmists, however. One view, for example, is that China can be expected to be a good "team player" (Yu 2001). A cognate view, in fact one held by an official in the Bush administration, holds that China reasonably can be expected to take "very seriously its commitments, and is working hard to implement them" (Donnelly 2002). Richard Foristel (2001) has offered a similar argument. Writing for the Scripps Howard News Service from Shanghai, he challenged the view of the China threat peddlers by characterizing China as "not an aggressive player," although "intensively nationalistic." China, he observed, "is now prepared to [let foreign firms] compete on its home turf . . . and is teaching itself world-class management methods," adding, "The country wants an effective social security system, health care for its retired, unemployment insurance, and environmental protection (does this sound familiar?). In Beijing, they call these goals the cornerstones of a 'socialist market economy.' If achieved, these are the kind of benefits that could cause the dissident Falun Gong to fade away."

Indeed, after becoming a WTO member, China now talks very much like a status quo power, even posing as a champion of global free trade. Shih Guangsheng, head of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), for example, lashed out at the Bush administration's move to levy additional tariffs on certain steel imports as a "new form of protectionism" contravening the tenets of international free trade.[11] The table clearly has turned on the United States. Like seven other governments, including those of the EU and Japan, the Chinese government filed a complaint—its first trade-dispute complaint after joining the WTO—against the United States over its steel-import surcharge on April 2, 2002.[12]

China apparently is fast learning the *defensive* use of WTO rules in trying to cope with bouts of selective protectionism such as that occasioned by the Bush steel tariff initiative. Defensive self-protection as such is a far cry from assertive use (or abuse) of power, even assuming WTO membership confers outright a windfall of power, which I doubt it does. Nevertheless, the fact of the Chinese WTO accession itself did represent a breakthrough, considering China's pariah status following the Tiananmen tragedy of 1989. Of special importance was the 1999 Sino–U.S. agreement and U.S. congressional legislation to grant China "permanent normal trading relations" (PNTR) status (previously known as "most-favored nations" status). This breakthrough paved the way for the remaining Western countries to complete their agreements with China for its WTO bid. At least in this sense, China's entry into the WTO symbolized an implicit lift in its international status.

Moreover, the mere fact that China now can speak for the developing world within the WTO's inner councils as a full-fledged voting member holds the potential for its increased political influence. This possibility is especially noteworthy because the WTO, at its Doha meeting in November 2001, embarked on a conscious campaign to offer assistance to the world's less-developed and especially least-developed countries so that their exports to advanced countries would be facilitated.[13]

U.S.–China Relations

Many in the United States see China's economic thrust, buoyed by its newly minted WTO membership, as the inception of "an inescapable process of China replacing the United States as the dominant power in Asia" (Perlez 2002, 1). People who take this view can point to the spiraling increases in U.S. trade deficits with China, which reached $74.7 billion in 1999 and $90.2 billion in 2001.[14] For them, this issue is not

11. Comment by Shi Guangshen quoted in *Qiaobao* (China Press), March 26, 2002, 4.

12. China's complaint was combined with that of seven other complainants, Brazil, Japan, Korea, New Zealand, Norway, Switzerland, and the EU, by the WTO Dispute Settlement Board, when it requested on July 29, 2002, the establishment of a panel to examine the U.S. "Definitive safeguard measures on imports of certain steel products." Thus a single panel would examine the eight complaints (case no. DS252). See "Single Panel" 2002.

13. Doha WTO Ministerial 2001: Ministerial Declaration, WT/MIN (01)/DEC/1.

14. Data in *China Business Review* 29, no. 3 (2002), 28.

just a trade matter. It arouses fears about the relative economic clout of China and the United States that may define which of the two countries will be the dominant power in the Asia Pacific region.

For a valid assessment, it is worthwhile to dwell briefly on what Joseph Quinlan calls the "shifting ground" (2002, 117) underpinning Sino–U.S. relations. The term denotes a transformation in the patterns of U.S. FDIs and of sales by affiliates of U.S. firms in China. These affiliates' locally manufactured products are now sold on the Chinese market, but are not counted as U.S. exports to China. Sales of these products by the same American affiliates back to the U.S. market, on the other hand, are counted as U.S. imports from China. Hence, the ever-widening U.S. trade deficits have been accounted bigger than they, however substantial in themselves, actually were, thus giving a distorted picture of China as a threat.

The "shifting ground," as such, drives home several aspects of China's new WTO membership. First, Chinese legal reforms, executed in conformity with WTO requirements, have made it possible for foreign firms to set up wholly owned affiliates in China, thus opening the door to increased U.S. FDIs, which totaled $7.5 billion (contracted) and $4.85 billion (utilized) in 2001.[15]

Second, U.S. firms, through their affiliates, can now compete with Chinese firms on their own turf. What regulates the operation of these U.S. affiliates and their relations with their Chinese counterparts and protects their rights is no longer exclusively within the bailiwick of U.S. (or Chinese) laws and policy. It falls within the jurisdiction of WTO rules. In other words, Sino–U.S. economic relations, though bilateral in nature, are now governed also by multilateral regimes under the aegis of a multilateral institution (the WTO). The "political" part of this change is that China's critics in the United States can no longer use effectively their habitual weapon of linking so-called extraneous issues (such as human rights violations), however legitimate in their own right, to matters of trade and investments, precisely because the latter are no longer a strictly bilateral question.

Third, for the same reason (because U.S.–China trade is no longer purely a bilateral matter), the United States no longer enjoys the leverage it previously had in blocking China from either PNTR- or WTO-defined benefits. As Lawrence Lau aptly puts it: "Short of a war that is devastating to both the U.S. and China, it is unlikely that China's steady rise, backed by its economic strength, can be permanently blocked [by the United States]" (2002, 17). This point has crucial political significance, for it almost foreshadows the future of U.S.–China relations. In the given circumstances, there is no denying that, in Lau's words, "it is in the interest of the United States for China to become a peaceful, secure, (international) law-abiding, and contributing member of the international community; . . . to become an open market for U.S. goods and services, a safe and profitable destination for U.S. investments, and in time a source of potential investment funds for the United States" (17). Washing-

15. *China Business Review* 29, no. 3 (2002), 29.

ton therefore, Lau concludes, has to ponder, in realistic terms of self-interest, both constructive engagement and cooperation as practical alternatives to containment.

If so, then the die is cast for a new genre of Sino–U. S. relations in which the United States, by the nature of the penetrating mutual interdependence (qua mutual vulnerability), cannot hurt China without damaging its own interests. Therefore, it stands to gain by depoliticizing commercial and trade disputes through reliance on WTO dispute settlement mechanisms when bilateral measures prove unavailing (Lau 2002, 18).

Against the background of this different genre of bilateral relations, China has found a new avenue for the protection of its commercial interests in the United States. In May 2002, for example, it won its first-ever antidumping case in the United States, when the U.S. Department of Commerce concluded a year-long investigation stemming from complaints by two Chinese companies, Ma'anshan Iron & Steel Co. and Weifang Steel Pipes & Piping Co., which had been slapped with stiff penalties for allegedly "dumping" their goods onto the U.S. market. The Commerce Department finally dropped the charges. According to the lawyers for the Chinese firms, the Chinese government will resort to more frequent use of WTO and bilateral rules for the protection of Chinese firms in future antidumping cases.[16] The availability of this remedy, which would have been elusive prior to 1999, substantiates the MOFTEC official's remark, cited earlier, that post-WTO China is now a "player of equal footing" on the global economic stage. China, in other words, can now appeal to the WTO if it fails to get relief from the United States in bilateral antidumping disputes. Such is the ultimate realistic political significance of China's accession to the WTO.

China and Its Asian Neighbors

There is general consensus that Chinese influence in Pacific Asia has increased (Lee 2001). In fact, China's WTO accession, together with the 1997–99 Asian financial crisis and Japan's decade-long economic slump, has begun to change the economic and political landscape of the region ("Beyond the Border" 2002; K. Huang 2002). China's WTO accession and the new avenues it has opened have transformed the region's previous perception of China as a threatening competitor that siphoned off an inordinate share of FDI and competed as a rival exporter to the same markets in Europe and North America. China continues to attract 70–80 percent of the total FDI into the region (excluding Japan) from all sources.[17] In joining WTO, however, it agreed to lower its average tariff from 16.7 percent to 10 percent in five years and to reduce the number of items under import license and quota from approximately three hundred to zero, thus opening up the huge Chinese domestic market to Asian imports, among others. China is also liberalizing foreign investment in banking,

16. See story in *Renmin ribao* (People's Daily), June 1, 2002, 5.

17. *The Economist* (December 2, 2000), 42.

insurance, financial services, wholesale and retail trade, and telecommunications ("Beyond the Border" 2002).

To be sure, the growth of China's economic strength inspires both fear and respect in Pacific Asia. The Japanese, for example, feel uneasy as growth reports show China's economy zooming upward at 8 percent annually while Japan's economy stagnates. In middle-class Malaysia, the concern is that high-tech foreign investors are pulling out and moving to China ("Asia Worries" 2002). A more balanced impression emerges only if we examine China's expanding relations with its Asian neighbors in terms of reciprocal give and take and in the overall regional context. One example is its relations with the Association of Southeast Asian Nations (ASEAN), which now has ten members—Singapore, Malaysia, Thailand, Indonesia, the Philippines, Brunei, Vietnam, Cambodia, Laos, and Burma.

Although ASEAN countries run consistent trade deficits with Japan, they have scored steady surpluses in trade with China. In 2000, for example, China's imports from ASEAN countries totaled $21 billion, as compared with $15.09 billion in exports to those countries. In addition, China increasingly has shown that it can play a constructive role as an incipient intraregional source of FDI for these Asian economies (Li 2002). Available data indicate that China's aggregate direct investments in four ASEAN countries (Indonesia, Malaysia, the Philippines, and Thailand) amounted to $1.23 billion (1990–99).[18] Although China is not on the verge of replacing Japan as an FDI source, its role as a potential investor seems likely to be more far-reaching in the long run than the role Japan played in the region for the decades before the 1990s ("Buying Fast" 2002). Certainly, its vast market potential for Asian imports is something that Japan cannot hope to rival.

China's WTO entry is marked by two collateral developments within the Pacific Asian region: first, the hatching of an ASEAN + 1 (China) free-trade area, eclipsing the long-brewing ASEAN + 3 (Japan, Korea, and China) area (K. Huang 2002); and second, the growing competition of the Chinese yuan against the Japanese yen as the stronger currency in the region (Schurmann 2002). Both developments reveal a hidden race in which China has been inching steadily forward to challenge Japan's economic dominance in Pacific Asia for more than three decades. China's WTO membership helped to give an extra push in spearheading these developments, and it is going to help accelerate the pace of the race.

The political upshot of this growing Chinese regional economic preeminence is that the region's states (with the exception of Taiwan) are unlikely to climb on the bandwagon with the United States in any serious confrontation with China (Kang 2001).[19] It does not follow, of course, that the Asian neighbors necessarily will band

18. These data were available in materials provided in early 2002 to my colleague at New York University, Professor David Denoon, by Professor Tam Kong Yam, the chair of the Department of Business Policy at the National University of Singapore.

19. For an analysis of Asian Pacific nations being forced to choose sides in the face of U.S.–China rivalry, see "A Growing Storm for East Asia" 2001.

together with China against U.S. interests in the region. On balance, nevertheless, the situation is a reversal of what prevailed as recently as the years immediately after the end of the Cold War, when these same Asian states, if pushed to choose, probably would not have hesitated to choose the U.S. side in a real or potential showdown with China.

To those who remember the mini–trade war between Japan and China in late 2000 through early 2001, I suggest that there has been a subtle twist in Japan–U.S. relations that makes it difficult for Washington to line up Japanese support in a common front against China. Although this topic deserves a separate article,[20] we might note in passing that the combination of China's growing economic potential and its nuclear arsenal—along with the grudge Tokyo harbors for the devastating effects of the U.S.–sponsored Plaza Accords of 1985, which many Japanese believe precipitated Japan's subsequent economic woes—has helped to foster a strong Japanese inclination to pursue a more "independent foreign policy." In reality, the term is a euphemism for avoiding involvement in a U.S. showdown with China. A U.S.–China armed conflict is viewed as likely to degenerate into a nuclear holocaust. Japan's inevitable involvement in that event, owing to Tokyo's alliance with the United States, probably would end in the physical devastation of the Japanese islands and the decimation of their population, as Kenzaburo Ohe, the Japanese Nobel laureate for literature once lamented (Han 2000). Right after China's accession to the WTO, Japan offered its warm official congratulations,[21] despite the unsettled state of the mini–trade war that had rattled their bilateral relations in the preceding months. Almost immediately, Japan and China came to an agreement officially ending their mini–trade war, paving the way for a resumption of normal bilateral trade relations ("China, Japan" 2001).

For a long time in the past, ASEAN nations had an innate fear of Japanese economic dominance in the region, much as they welcomed Japanese investments and overseas development aid. Their intuitive wish for an economically vibrant China to serve as a counterweight was unavoidably tempered by a fear of being overwhelmed by a Chinese colossus both in size and in the competitive edge that comes with the size (Antolik 1990, 162). Still, the Chinese entry into the WTO seems to have eased these ASEAN nations' edginess somewhat, at least for the countries that are fellow WTO members, because trade with China now comes under the jurisdiction of the WTO multilateral regime. Hence, even though the ASEAN nations felt the jolt of the Japanese devaluation of the yen in 2001, they view the rising competition between the Chinese yuan and the Japanese yen with approving excitement. They seem to enjoy watching the Chinese yuan gaining in strength, unperturbed by the prospect raised by former German chancellor Helmuth Schmidt that before long the yuan might overtake the yen (Schurmann 2002, 4).

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20. I have dealt with the complex topic of a changing Sino–Japan–U.S. relationship in another article (Hsiung forthcoming).

21. "Statement by Ms. Makiko Tanaka, Minister for Foreign Affairs, on China's Accession to the World Trade Organization, " release of the Japanese Ministry of Foreign Affairs, September 17, 2001; available at: www.mofa.go.jp/announce/2001/0/0917.html.

Earlier in the article, I noted the hatching of an ASEAN + 1 (China) free-trade area, which by all indications would eclipse the ASEAN + 3 (Japan, Korea, and China) free-trade area. The hidden reason for this eclipse is ASEAN reservations about Japan's alliance with the United States. It was feared that ASEAN + 3, with Japan in it, would become a conduit (through Japan) for U.S. influence and control, thus complicating ASEAN's autonomy and relations with China (T. Tsai 2002, 92).

For its part, China does not consider ASEAN a threat and is keen to work with it, eager to persuade its members that China's own growth is good for them as well (Lawrence 2002). Thus, in spite of internal differences, it is possible for ASEAN to agree to engage China in a network of multilateral discussions and arrangements, rather than take a confrontational approach (Lee 2001). News from Kuala Lumpur, where the ASEAN–China Forum met on August 29, 2002, indicated that the ASEAN–China free-trade area (ASEAN + 1) would commence as of January 1, 2003—rather than in 2010 as originally planned—with the reduction of tariffs to zero on goods imported from the group's eleven members.[22]

ASEAN was conceived originally with the dual goal of promoting its members' trade and security (China was the security worry). The extent to which the group now finds it possible to engage China in trade-oriented multilateral arrangements as such, without the old security fears, testifies to a fundamental transformation in ASEAN's perception of China. Although important in itself, this development also graphically confirms that in the geoeconomic age nations' ecosecurity concerns far outweigh their traditional security (or national-defense) concerns. This outcome testifies to the crucial change in the Asian regional economic and political landscape alluded to earlier, a change that began in the run-up to China's accession to the WTO, but the pace has certainly quickened since.

China and the EU

Commercial ties between China and the EU have been growing steadily over the past two decades. From 1978 to 1999, EU–China trade increased more than twentyfold, reaching 70 billion Euro. In 2000, the EU was the largest foreign direct investor in China (after Hong Kong). China is the main beneficiary of the EU's generalized preferences scheme (Lembocke 2001). The EU promptly welcomed China's accession to the WTO because both China and the EU have much to gain from the event. The latter already had seven projects aimed at helping China to meet its WTO obligations. Under the *Country Strategy Paper 2002–2006* for China, adopted by the European Commission on March 1, 2002, three priorities were identified for programming: *(a)* support for China's economic and social

22. See dispatches in the Chinese-language *World Journal* (New York), August 29, 2001, 2, and August 30, 2002, 2.

reforms; *(b)* environment and sustainable development; and *(c)* good governance and a strengthened rule of law. An indicative budget of 250 million Euro was planned for the four-year period to support EU programs in China (EU 2002a, 2002b).

Although much of this development in EU–China relations is economic in nature, the underlying political implications are also substantive, despite being hidden from view. A few examples should serve to illustrate this point.

First, even before the Chinese WTO-accession negotiations were consummated, the EU was already readjusting its Asian regional policy, particularly in view of Japan's inability to bail itself out of a decade-long economic slump. The new EU Asia policy called for placing China ahead of Japan as Asia's engine of growth and, hence, as the centerpiece of the EU's relations with the Pacific Asia region (Bridges 2001).

Second, in the course of the Fourth EU–China Summit, held in Brussels in September 2001, the EU reaffirmed that it would continue to adhere to the One China principle and expressed hope for a peaceful resolution of the Taiwan question—something politically very dear to Beijing—through constructive dialogue. Both sides agreed to "strengthen the EU–China political dialogue and widen its scope," which meant that the two sides should "conduct more in-depth consultations and exchanges of views at all levels, . . . on EU–China relations and on international and regional security issues of mutual concern, including nonproliferation, arms control and disarmament" (EU 2001, 1).

Third, shortly after President Bush announced his decision to levy additional tariffs on certain types of steel, the EU denounced the move as "the first major threat to the World Trade Organization regime" and as an action that risked a return to competitive protectionism. It announced that it would work with other steel producers, including China, Japan, and South Korea, in "an immediate challenge against the U.S. in the World Trade Organization" ("Makings of a Trade War" 2002).

These three episodes are sufficient to demonstrate the political significance to the EU of China's cooperation, which had begun incrementally in the commercial sphere but accelerated and expanded in tandem with Beijing's entry into the WTO. They illustrate as well China's rise as a major actor on the world stage, stemming from its sustained phenomenal economic growth and liberalization and culminating in its complete inclusion in the world's globalized economy, symbolized by its WTO entry.

The Challenge for "Greater China"

The consequences of China's entry into WTO for the other components of Greater China are so vital that they warrant a separate discussion. *Greater China* refers to the loose network encompassing China proper, Taiwan, Hong Kong, and Macao. As a trading area, Greater China is becoming increasingly important in world trade. Its share of world trade increased from 5.5 percent in 1987 to nearly 9 percent in

1995. Its total trade in the latter year reached $869 billion, which exceeded Japan's total trade ($779 billion) and was approximately three-fifths as great as U.S. trade (Wang and Wang 1997, 149). Of the four members of Greater China, Macao is the smallest in size, population, and economic weight, so I do not include it in this discussion.

In a special study of the impact of WTO membership on the three Chinese economies—mainland China, Taiwan, and Hong Kong—two American economists concluded: "Under static condition of capital market closure, the real exports will increase 61.5%, 7.3%, and 8.9%, respectively, for China, Hong Kong, and Taiwan from the base year"—that is, from 2001, the date of China's and Taiwan's entry to the WTO.[23]

Hong Kong has been a member of the GATT/WTO since 1986, when it joined as a British colony. Mainland China and Taiwan, as noted, were admitted into the WTO in tandem only in late 2001. The pair's synchronized accession offered many reunification enthusiasts a gratifying but largely empty hope that it would expedite the reunion process. Thus far, the event's effects on the final outcome in cross-strait relations remains unclear. One thing, however, is clear: mainland China's entry into the WTO paradoxically presents both Taiwan and Hong Kong with a dilemma and a challenge, though for different reasons.

For Taiwan, an eerie tension exists between what is the first official and undeniable tie between the two economies since 1949, on the one hand, and the current Taipei government's predilection to steer the island away from the reunion favored by the mainland, on the other hand. The two sides remain locked in a sovereignty dispute inherited from the Chinese civil war of the 1940s. The nearly simultaneous, but separate, admission of both the mainland and Taiwan into the WTO symbolized the continuing dispute, which has not been mitigated by their joint entry. WTO rules that require each to liberalize its market access for the other have only complicated this hostility-cooperation dilemma. For Hong Kong, the dilemma arises from the WTO-rekindled prospect of direct links between Taiwan and mainland China, the two parties on opposite sides of the Taiwan Strait.[24]

To put this issue into perspective, let us ponder what lies ahead for Greater China if we consider that future solely from economic and commercial points of view. According to World Bank projections, using 1997 as the base year, China's import-export trade will increase by an annual growth rate of 10 percent from the date of its WTO entry to the year 2020. By 2020, then, China will account for 10 percent of the world's total trade (Luo 2001). The same report singled out three sectors in which China enjoys a decided comparative advantage as a candidate for robust growth after WTO accession. The three sectors—apparel, light industrial products, and machines

23. Chow and Tuan 1997. I am grateful to these authors for making this study available to me. Although the paper was written in 1997, the data, I was assured, are still valid.

24. Until 1987, there were not even indirect links. There are to date still no direct trade flows, postal exchange, or direct air or sea transportation links (known as the "three direct links") between China and Taiwan.

and apparatuses—are the same ones in which Taiwan and Hong Kong firms have invested most of their capital. It will be interesting to see whether Taiwan and Hong Kong can cash in on the enhanced growth opportunities in mainland China, as predicted.

Impact on Taiwan

The synchronized WTO admission of Taiwan and mainland China will have a strange combination of results for Taiwan: impressive substantive economic gains but, simultaneously, very trying political complications.

On top of Taiwan's own gains from its WTO entry, which roughly parallel the gains for mainland China outlined earlier, the island's businesses will enjoy additional benefits from the mainland's WTO-conforming, market-opening measures. At a minimum, like all other WTO members, Taiwan will profit from China's loosening of economic controls, reduction of tariffs, opening of markets, improved regulatory transparency, and elimination of nontariff measures.

Taiwan's top one hundred exports to mainland China in 1999, according to customs reports in China, fell predominantly into eight categories: color TV tubes, plastic or rubber injection and press molds, hard metal alloy injection and press molds, polyester synthetic cotton, forging or die-stamping machines and hammers for metal working, elastic polyester filament, polyester section, and polyester fiber and yarn. These eight categories of Taiwan exports, which together represent 30 percent of the mainland's import market, are expected to gain further from Beijing's elimination of nontrade measures as required by its WTO commitments and by the Sino–U.S. agreement of 1999 ("Economic Reforms" 2000).

Pre-WTO annual trade between Taiwan and the mainland had reached $32.2 billion by 2000, accounting for 11.2 percent of the island's total external trade. Since 1993, Taiwan consistently has registered annual surpluses from its trade with China larger than those from its total external trade elsewhere in the world. In 1998 alone, its $15.73 billion surplus from the mainland China trade was 2.7 times Taiwan's total surplus ($5.917 billion) from global trade. Cumulative Taiwan-mainland trade in the thirteen-year period from 1987 to 2000 totaled $200 billion (H. Tsai 2001, 57).

Yet all this time Taiwan had no direct trade, postal, or transport links with the mainland because the Taipei government, for political reasons, adhered to a longstanding policy of shunning direct contacts–-a policy it had unhampered leeway to maintain before its WTO entry. As WTO members, both Taiwan and mainland China are now required to open their economies to each other, as they must to all other WTO members, although WTO rules do not require these three direct links specifically. Undeniably, a commercial challenge for Taiwanese companies doing business with mainland China is that the latter's markets will be more competitive following the WTO entry. The competition may lead to a structural change in Taiwan's cross-strait trade. Furthermore, Taiwan will have to ease its existing restrictions for mainland Chinese imports and relax its rules on mainland investments in the island. Prior to WTO accession, companies with mainland Chinese ownership of more than 20 percent were allowed to do business in Taiwan only on a case-by-case basis, but this restriction is subject to change following Taiwan's entry into the WTO (Flannery 2000).

Taiwan's economic relations with the mainland were subject to the island's "Regulations for Cross-Strait Civilian Relations," which imposed restrictions on the exchange of goods, people, and capital flows and on the transfer of resources across the Taiwan Strait. The regulations also set the terms for dispute settlement. These restrictions and rules, applicable exclusively to Taiwan's relations with the mainland, violate WTO requirements in both spirit and letter and are subject to repeal unless, of course, Taiwan invokes the exclusionary clause. Conversely, the special, or better than national treatment, terms received by Taiwan's businesses from mainland China in trade or investments thus far are in danger of being modified or revoked in conformity with WTO's principle of nondiscrimination toward all members. On balance, Taiwan's businesses trading with and investing in the mainland probably will still be ahead after the gains cancel out the losses, but the net outcome will be worse than if Taiwan and mainland China had remained outside the WTO.

The political challenge presented by the double entry of mainland China and Taiwan is much more complicated. The crux of the matter is Taipei's changing position on the One China concept. Under President Chiang Ching-kuo from 1978 to 1988, Taiwan maintained a modus vivendi with mainland China while developing "pragmatic diplomacy" contacts with foreign countries (including the United States) that had switched recognition to the People's Republic of China, the opposing Chinese regime on the mainland. After 1986, Chiang Ching-kuo opened the floodgates for travel to the mainland by civilians and even for indirect trade (through third points such as Hong Kong) with the People's Republic. The secret was that Chiang Ching-kuo, like President Chiang Kai-shek before him, held fast to the One China precept, which in itself assured the People's Republic that Taiwan was not drifting away on a truly separatist course. The One China precept means that the division across the Taiwan Strait since 1949 will be only temporary. Thus, it disarmed Beijing of a pretext, or even of a need, to threaten the use of force to achieve reunification (Hsiung 2000, 118–21). It turned Beijing from a deadly rival into a potential partner. In theoretical terms, the "shadow of the future" was brought into play so that Beijing could be persuaded to trade present loss (allowing Taiwan some diplomatic elbow room) for future gains (ultimate reunion with Taiwan).[25]

In the years since Chiang Ching-kuo's departure, however, Taiwan's commitment to the One China premise has wavered and waned under the twelve-year rule of President Lee Teng-hui, whose Two States theory, floated in 1999, unequivocally supplanted the One China idea. Since the March 2000 election, Taiwan has been lan-

25. See Axelrod 1984 for a "shadow of the future" discussion.

guishing under a new president, Chen Shui-bian, whose Democratic Progress Party platform called for a separatist future for the island and who openly refuses to identify himself as a Chinese. This naked debunking of the One China precept has placed the cross-strait relationship literally in dire straits. In reaction, Beijing has ceased almost all known formal political contacts with Taipei.

By coincidence or not, Taiwan's economy during the same period experienced bizarre setbacks not seen in decades, if ever, with the stock market losing half of its value during the first year of Chen's presidency. Unemployment hit an all-time high of 8 percent by the second year. The Taipei American Chamber of Commerce reported in its 2001 White Paper on Taiwan that the confidence rating of U.S. businesses in the island's political stability registered an unprecedented low of 20 percent. The report cited the year-long cross-strait standoff since President Chen took office in May 2000 as the main reason for the loss of confidence among the chamber's six hundred members.[26]

Leaving aside the economic or commercial question, one finds the political costs for Taiwan almost mind-boggling. The island now has to contend with the liberalizing pressures inherent in WTO regimes. It also is facing growing pressures to institute the three direct links—trade, post, and transport—pressures coming equally from Taiwan's own business community and from across the strait. If Taiwan should attempt to circumvent the WTO liberalizing regimes insofar as they bear on the question of the direct links, it would open the way for the mainland to retaliate in kind. As the smaller of the two economies, Taiwan would most likely sustain far more severe losses.

Caught between the unwelcome political constraint and the prospect of enormous economic gains, Taiwan's government has approached the direct-links problem with the greatest caution. Its foremost spokesman on cross-strait relations was reported as saying that although under WTO rules Taiwan cannot avoid the question of direct links, the government in Taipei must take into consideration "national security," substantive equity interests, and the structural differences between Taiwan and the mainland in any decision and action with regard to this question.[27] Taiwan's dilemma, to reiterate, derives paradoxically from its own as well as China's successful bid for WTO membership.

Effects on Hong Kong

At least two dire consequences for Hong Kong arising from its Chinese sovereign's entry into the WTO are obviously unavoidable. One is its loss of preferential treatment heretofore received from China; and the other is the shrinking advantage of Hong Kong's role as an entrepôt between mainland China and Taiwan.

26. The report was released to the press by the chamber's president, Peter Banko, *Chung-yang ji-bao* (Central Daily News, Taipei), May 11, 2001, 1.

27. Statement by Tsai Ying-wen, head of the Mainland Affairs Commission, reported in *Tzu-you shi-pao* (Liberal Times, eastern U.S. edition), May 26, 2001, 7.

The loss of preferential treatment applies not just to investments from Hong Kong, but to all foreign or external-source investments throughout China proper, as Beijing complies with WTO's national-treatment rule. The revocation of special tax breaks and other privileges applies equally to foreign firms that use Hong Kong as a conduit for entry into China proper. Already in April 2001, it was reported that in anticipation of WTO accession Beijing was phasing out preferential tax benefits for investments from Hong Kong. In addition, it was adjusting its tax structure for imported goods from Hong Kong and even repealing the five-year tax-haven privilege for investments and banking interests from all "external" sources. This move applies in all Chinese special economic zones, such as the new Pudong economic zone in Shanghai and the industrial park in Suzhou (Soochow). The policy change was required by WTO rules to equalize the country's "internal' and "external" taxes.[28] A sinister implication is that China's WTO entry leaves in doubt the status of all its preexisting special economic zones and by extension that of the Hong Kong and Macao special administrative regions.

The other adverse effect on Hong Kong comes from trade diversion as its entrepôt role between Taiwan and the mainland diminishes. In the past, Hong Kong was a way station for the exchange of goods (and, after 1986, of visitors) across the Taiwan Strait. It was an intermediary for channeling capital inflows from Taiwan investors to mainland China. One account showed, for example, that in 1996 alone some $30 billion of investment from Taiwan was routed through Hong Kong to various points in China.[29] As an entrepôt for merchandise, Hong Kong was the conduit for the transshipment to inland China of 85 percent of the $10.35 billion in goods from Taiwan from January through November 2000. According to statistics of the Hong Kong special administrative region, the reverse traffic was also substantial. Some $1.8 billion of goods from inland China was trans-shipped through Hong Kong to their final destinations in Taiwan (Luo 2001, 13). However, it is doubtful how much longer Hong Kong's entrepôt function will continue.

Hong Kong is reputed to be the world's largest port for container shipping. In 2000, it handled 17.8 million twenty-foot equivalent units of container goods in incoming and outgoing shipments. A consolation for Hong Kong is that the underdeveloped infrastructure and capacity of mainland China's transport system may allow it a continuing role as a port of entry into inland China. The massive growth in China's foreign trade, which rose from $20.6 billion in 1978 to $474.3 billion in 2000, has strained the capacity of its major ocean-port cities and surrounding areas, despite desperate attempts at expansion and modernization in recent years. China's

28. See *Hong Kong Economic Daily,* April 7, 2001, and *Liang-an ching-mao* (Straits Business Monthly, Taipei) 113 (May 7, 2001), 26.

29. Bank of China, Hong Kong Branch, *Selected Transactions in Economic Data,* no. 1473, October 18, 1996, cited in Li 1997, 40.

busiest ports, including Shanghai and Shenzhen (first and eighth, respectively, among the country's top thirteen ports), are already operating at more than 100 percent of capacity (McDaniels 2001, 18). Hong Kong, the region's largest container shipping center, may thus come to the rescue. In sum, although Hong Kong's role as a port of entry is not going to vanish completely, this role will be very different from what it was in the past, before China's and Taiwan's WTO accession.

Conclusion

I have attempted to assess the key domestic and external consequences of China's accession to the WTO, first in more general terms and then with sharper focus on China's international position and external relations. I also have dealt with the complex and important impact of this accession on China's relations with two other components of Greater China, Taiwan and Hong Kong.

In much of the discussion, I have focused on the ticklish question of whether China's sustained economic growth can be linked to an attendant rise of its political status on the international scene. The search has touched on the larger question of the economic-political linkage in the age of geoeconomics. I found that China's economic success, coupled with Japan's decade-long economic doldrums and the setbacks of the high-performance Asian economies since the financial crisis of 1997–99, seems to have transformed the regional economic and political landscape of Pacific Asia. The emergence of an ASEAN–China free-trade area, in itself, clearly indicates the triumph of trade over security concerns.

This consciousness of the economic-political linkage also bears on the new directions of Sino–U.S. relations. Despite George W. Bush's bleak view of China as a gruesome "strategic competitor" during his 2000 presidential campaign, his administration soon had to face the stark reality that, as we have seen, it is now to U.S. strategic interest to maintain an engaging (rather than containing) policy toward China.

The EU, too, has found itself moving ever closer to China politically because of the economic-political nexus, following their increasing economic ties. Traditional U.S. allies in Europe have disapproved what they see as President Bush's habitual reliance on a unilateral reflex, as in taking the United States out of the Kyoto Protocol and in rejecting the International Criminal Court (Kagan 2002, 7, 11). They also have a complaint about President Bush's decision to levy additional tariffs (surcharge) on certain steel imports in violation of WTO rules. In its new geoeconomic scuffle with the United States, the steel-producing EU has found a new ally in China, in addition to Japan and other producers. The deeper meaning of these developments is that the traditional political ties between the United States and its European allies are coming loose. A new kind of political cooperation, on the other hand, is taking shape between the EU and China because of their economic affinity, notwithstanding their formal ideological disparities. Such divergent developments have followed a pattern not found during the Cold War, when ideological differences precluded both political and economic ties. The changed pattern is endemic to the age of geoeconomics, in which compatibility in trade and investment interests (ecosecurity) sway the course of political relations.

The rare exception, mainland China's relations with Taiwan, in which the growth of entangling bilateral economic ties has failed to arrest or even dent worsening political feuds, falls in a totally different category. As a continuation of the Chinese civil war of the 1940s, this perpetual dispute over sovereignty is better understood as a domestic conflict, however sui generis it may be, than as a typical international conflict. Hence, the bizarre symbiosis of entangling economic ties and intractable political tensions in their relationship deviates from the larger geoeconomic pattern found elsewhere.

In general, China's impressive economic growth has transformed its identity in the eyes of much of the world, as its WTO entry serves to symbolize. This new status seems to have marked China as a greater political force in the cases I have examined, even if it has not directly heralded the country's political ascendancy, notwithstanding the fabled China threat. This outcome is not exactly the result of Beijing's willful maneuvering to cash in politically on its growing economic clout. Nor is there hard evidence that it is consciously pushing its weight around the globe. Rather, it is more a natural result of the underlying economic-political linkage attributable to the happenstance of an unfolding age of geoeconomics, in which economic strength is readily perceived as and hence is translatable into political power.

Although China's growing economic power is often perceived in the United States as ominous, it has not frightened China's Asian neighbors into hostile alliances. As we have seen, the ASEAN nations have entered into a free-trade area with China, which leaves Japan out in the cold. At its annual meeting in Cambodia on November 4, 2002, ASEAN even entered into an agreement with China aimed at avoiding conflicts over disputed islands in the South China Sea ("China and Neighbors" 2002). The area includes the Spratlys, to which both China and five Asian neighbors have laid competing claims and over which skirmishes arising from sovereign disputes were occasionally reported (Hsiung 1993, 15, 83). Except in Taiwan, China's growing economy does not seem to have provoked alarm in the region. As Singapore's senior minister and elder statesman Lee Kuan Yew argues, China's success in this respect lies in its ability thus far to cast influence through the economy, not through force ("Asia Worries" 2002).

China's WTO entry is but the tip of the iceberg of its amazing economic success, as evidenced by the eightfold growth of its economy in the past twenty-five years. After joining WTO, China became a status quo power, even posing as a champion of global free trade. It thus no longer has an incentive to change or circumvent the system, as Maoist China seemed tempted to do. A status quo power, by definition, is more apt to play by the rules, posing no material threat to other rule-abiding players. The inherent change in China's self-perception as a "player of equal footing" in the existing Wilsonian multilateral system is ultimately the most important political consequence in the aftermath of China's accession to the WTO, fulfilling a fervent desire in what Dali Yang calls China's quest for "global acceptance and prestige" (2002, 15).

Finally, for its part, the WTO has become truly global by including within its ranks a country with one-fifth of the world's population and with an economy rated by the WTO as the world's fourth largest, trailing only the economies of the EU, the United States, and Japan.

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