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**A5-0366/2001**

18 October 2001

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## **REPORT**

on the proposal for a Council decision establishing the Community position within the Ministerial Conference set up by the Agreement establishing the World Trade Organization on the accession of the People's Republic of China to the World Trade Organization  
(COM (2001) 517 – C5-0487/2001 – 2001/0218(CNS))

Committee on Industry, External Trade, Research and Energy

Rapporteur: Per Gahrton

### ***Symbols for procedures***

- \* Consultation procedure  
*majority of the votes cast*
- \*\*I Cooperation procedure (first reading)  
*majority of the votes cast*
- \*\*II Cooperation procedure (second reading)  
*majority of the votes cast, to approve the common position  
majority of Parliament's component Members, to reject or amend  
the common position*
- \*\*\* Assent procedure  
*majority of Parliament's component Members except in cases  
covered by Articles 105, 107, 161 and 300 of the EC Treaty and  
Article 7 of the EU Treaty*
- \*\*\*I Codecision procedure (first reading)  
*majority of the votes cast*
- \*\*\*II Codecision procedure (second reading)  
*majority of the votes cast, to approve the common position  
majority of Parliament's component Members, to reject or amend  
the common position*
- \*\*\*III Codecision procedure (third reading)  
*majority of the votes cast, to approve the joint text*

(The type of procedure depends on the legal basis proposed by the Commission)

### ***Amendments to a legislative text***

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

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## PROCEDURAL PAGE

By letter of 12 October 2001 the Council consulted Parliament, pursuant to the first subparagraph of Article 300(3) of the EC Treaty, on the proposal for a Council decision establishing the Community position within the Ministerial Conference set up by the Agreement establishing the World Trade Organization on the accession of the People's Republic of China to the World Trade Organization (COM (2001) 517 - 2001/0218 (CNS)).

At the sitting of 22 October 2001 the President of Parliament will announce that she has referred this proposal for consideration to the Committee on Industry, External Trade, Research and Energy as the committee responsible (C5-0487/2001).

The Committee on Industry, External Trade, Research and Energy appointed Per Gahrton rapporteur at its meeting of 10 October 2001.

The committee considered the draft Council decision and draft report at its meeting of 15 October 2001.

At that meeting it adopted the draft legislative resolution by 18 votes with 3 abstentions.

The following were present for the vote: Carlos Westendorp y Cabeza, chairman; Nuala Ahern, vice-chairman; Peter Michael Mombaur, vice-chairman; Per Gahrton, rapporteur; Felipe Camisón Asensio (for Jaime Valdivielso de Cué), Concepció Ferrer, Francesco Fiori (for Umberto Scapagnini), Neena Gill (for Glyn Ford), Alfred Gomolka (for Werner Langen), Michel Hansenne, Rolf Linkohr, Caroline Lucas, Eryl Margaret McNally, Erika Mann, Elly Plooi-j-van Gorsel, John Purvis, Mechtilid Rothe, Jacques Santer (for Paul Rübig), Konrad K. Schwaiger, Claude Turmes and W.G. van Velzen.

The report was tabled on 18 October 2001.

## **DRAFT LEGISLATIVE RESOLUTION**

**European Parliament legislative resolution on the proposal for a Council decision on establishing the Community position within the Ministerial Conference set up by the Agreement establishing the World Trade Organization on the accession of the People's Republic of China to the World Trade Organization (COM (2001) 517 – C5-0487/2001 – 2001/0218 (CNS))**

### **(Consultation procedure)**

*The European Parliament,*

- having regard to the proposal for a Council decision (COM (2001) 517<sup>1</sup>),
  - having regard to Articles 37, 44, 47, 55, 71, 80(2), 95, 133 and 308 of the EC Treaty,
  - having been consulted by the Council pursuant to the first subparagraph of Article 300(3) of the EC Treaty (C5-0487/2001),
  - having regard to Rule 67 and Rule 97(7) of its Rules of Procedure,
  - having regard to the report of the Committee on Industry, External Trade, Research and Energy (A5-0366/2001),
1. Approves the Community position;
  2. Instructs its President to forward its position to the Council and Commission, and to the governments and parliaments of the Member States.

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<sup>1</sup> Not yet published in the Official Journal.

## EXPLANATORY STATEMENT

The Proposal for a Council decision by the EC describes the implications of China's WTO membership from a number of aspects, such as China's legally binding commitment to open trade, the impact on the WTO system and the terms of China's WTO accession by sectors.

### 1. A one-sided EU victory?

According to the EC, China's WTO accession is 'a one-way market opening process'. For the EU, the EC says, 'which ensured that the interests of European industries and firms were fully represented, China's entry will therefore signal an enormous gain in enforceable rights, with no significant change in our own commitments towards China'. The very few concessions the EU had to accept, such as the phasing-out of China-specific quantitative restrictions by 2005, will be softened by specific safeguard instruments against injurious imports or surges of imports from China for up to 12 years after accession. The final result, the EC says, is 'an extremely substantial market opening process'.

Thus, it is obviously a very one-sided affair, where China has had to accept requirements to 'open its economy to foreign imports, investors and businesses' (EC par 11). One might call it an important EU victory. The question is, of course, if trade agreements in a world of international cooperation should be judged as if they were football matches. The rapporteur thinks not and is rather sceptical about the victorious language in the proposal by the EC.

### 2. Chinese criticism of WTO accession

The Chinese Government has accepted the conditions for WTO accession which have triggered the jubilant wordings by the EC. However, WTO accession is not undisputed in China, a fact that the EC does not mention by a single word, although it should be known to it through the EC representation in Beijing, which must have been able to deliver full information about the ongoing Chinese debate on the matter.

During a visit last year to Beijing the rapporteur met the authors of two books (in Chinese) that both maintain that the accession to the WTO constitutes a threat to the social and economic development and political cohesion of China. Interestingly enough these books are not part of a forbidden underground literature, but published by Chinese publishers in China and available at bookstores all over the country.

One of the books, 'Collision: Globalisation and China's reality choice', is written by a young economist at Beijing Aeronautic University, Han Deqiang. He considers China to be the weaker part that will lose to a system that is dominated by transnational companies. He denies being 'conservative', he is closer to the Western brand of criticism of 'neo-liberal globalisation'. His sympathies are with the lower classes, he says. He believes that Chinese companies will be outflanked or swallowed by transnational giants. At the same time he is a supporter of the opening-up policy of Deng Xiao Ping. He believes in a market economy in a politically controlled framework. His main argument against WTO accession is that the Chinese economy is not strong enough and that the poorest classes of China will have to pay a heavy price in the form of unemployment and social insecurity.

Our chat, he says, could not have taken place six to seven years ago. The climate is more open

now. Han Deqiang visited Brussels as guest speaker at a seminar on China and the WTO this summer. Asked why the Chinese leadership, despite criticism such as his own, is so keen to join the WTO he answered: join the WTO so the wallet of the rich won't be under threat.

Han Deqiang's book received quite extensive attention in China when it was published in 2000. The Central Policy Research Institute published a long summary and the journal 'International Trade', belonging to the Ministry of Foreign Trade, published an article based upon the book. Several other magazines published abstracts or comments.

The other book, 'China in the shadow of globalisation', has a map on its cover which shows how China has been split up in five parts, apart from 'traditional' China, also Tibet, Xinjiang, Inner Mongolia and Manchuria. The authors, the political scientist Fang Nin and the economic journalist Wang Xiaodong, pretend that such a partition is one of the possible effects of WTO accession, which may release internal tensions which may end up in a division of the country, a result that they consider to be the intention of the USA and the EU. Also in 'traditional' China there is tension. According to Fang and Wang, south China is more positively inclined towards integration into the world market, while there is hesitation in the north and in the interior. The reason is, of course, that the economy in Guangdong and other southern coastal provinces is more competitive, while the northern provinces are dominated by outdated heavy industries of the Soviet type and the interior by primitive small-scale agriculture, which despite, or because of, its lower technological level has a higher price level than imported food from large-scale industrial agriculture in the West. Thus, the USA will control the agricultural market of China, says Fang.

These two books give a picture of China close to explosion. Nothing is predictable. The Western belief that WTO accession automatically will lead to political liberalisation, is not accepted by any of the three authors. They say it may also turn the opposite way, but they admit everything is uncertain. If WTO accession creates tensions and conflicts that destroy one-party rule, the alternative may be some kind of democracy, but it may also be a worse dictatorship. Or chaos and civil war.

The rapporteur finds it extremely surprising that the EC, not with a single word, is even hinting at the existence in China of these types of general critical views concerning China's WTO accession. There are several reasons why it would be logical for the EU to take this kind of criticism into account:

a) China is not a parliamentary democracy. The Chinese people may or may not agree with its government about WTO accession. From a EU point of view it should be clear that the EU has a special responsibility to take into consideration alternative opinions in China.

b) The cited criticism is not of the 'dissident' or 'underground' type. The fact that the cited criticism is neither outlawed or made by 'dissidents', but published in books available in bookstores in China, shows that it most probably represents much wider circles than its authors. There is a much more widespread uneasiness about the implications of WTO accession in China than is represented in the fact that the political elite has decided to go for membership. It is obviously a very hazardous affair for the political leaders. In this perspective it appears to the rapporteur rather inappropriate to present the China-EU agreement on WTO accession in such jubilant and victorious terms as the EC has chosen to

do in its document. Any Chinese reader of the EC proposal must get the impression that the whole affair is a series of one-sided concessions by China to open its market to EU business.

c) If there is anything valid in the general criticism of the type cited above, the effects may be very serious upon stability in China, with repercussions not only for global security but also for the security of EU business in China. Shouldn't the EC, apart from praising itself for its victories at the negotiating table, give some thought to the problems that may arise ahead, how the EU should act in order to avoid the exploitation by EU business of the opportunities given by China's WTO accession leading to negative effects of the type described in the above-quoted books?

### 3. Special implications for the Chinese economy of WTO accession

The EC document outlines on 14 lines how WTO accession is 'good for China's economy' (par 13). There is no indication whatsoever in the EC document that problems or negative effects may arise in China. For information about this, other sources are needed. The rapporteur will not try to give any extensive picture of the abundant reports by journalists, sinologists, social scientists and economists that exist on possible problems in China because of WTO entry. Just some examples:

#### Problems in the state sector

One of the most severe problems includes the non-performing state-owned enterprises (SOEs), with the entire sector showing a net loss from 1996 through to 1998. The financial sector has remained mostly a policy tool to channel resources to the SOEs, causing a serious credit crunch for the private sector. At the same time, the banks are plagued with bad loans from the SOEs. Production terms, excessive capacity and bloated administrations afflict the state sector. Over half the SOEs reported idle capacity of at least 50%. An estimated 18% of total employees in the state sector are redundant workers. These problems will lead to serious unemployment and more bad loans as reform continues.

Of course, some of China's plate will be quite bitter to swallow. It may be good to let inefficient SOEs die; jobs will also disappear. The estimated unemployment rate in cities and towns is already above 15% and this number is likely to increase. Re-employment prospects are very bleak because those who are laid off are often older and unskilled. Furthermore, decades of the iron rice bowl have formed poor attitudes toward working that are not welcomed in a profit-oriented business. To make the picture worse, an estimated 30% of the agricultural labour force is redundant, meaning 120 million farmers will have to look for jobs in the cities. This creates another source of unemployment pressure.

While the picture looks bleak, there is hope that if China survives this radical transformation, a new economy will emerge that is much more affluent, market-oriented, rules-based, transparent, orderly and efficient. (From China Online 14/8-01)



## Weed attack risk heightened with WTO entry, says expert

China faced a higher risk of damage from introduced weeds when opening its doors to foreign agricultural imports under its entry to the World Trade Organization, an agricultural expert warned yesterday.

Xinhua quoted Shi Zhicheng, vice-chairman of the China Agricultural Society, as saying Beijing needed to tighten regulations against the importation of foreign plant species. Mr Shi's warning came after negotiators in Geneva said on Friday that they had reached an informal agreement on China becoming a full member of the WTO later this year. Earlier state media reports said Chinese farmers would face increased competition from foreign imports once the country was a full member of the WTO. Mr Shi said non-indigenous weeds had already caused considerable damage to China's ecology. (From South China Morning Post 17/9-01)

## Debate over farm subsidies toughest of hurdles

With more than 900 million of its 1.3 billion population working in agriculture, China's leaders were understandably concerned about how they would cope with the flood of farm imports when the average tariff on agricultural products fell to 17% by 2004. Official Chinese estimates say that because of cheaper grain imports, 9.7 million farmers will lose their jobs within seven years after Beijing joins the WTO. A US\$ 2 billion-a-year increase in United States agricultural exports to the Middle Kingdom could be seen, according to US Agriculture Department estimates. (From South China Morning Post 18/9-01)

From these sample reports it is clear that to describe the implications of WTO accession without reservations as 'good for China's economy' is simply not correct. The picture is much more multifaceted and complicated. Implications will be quite different for different regions, different social groups, different individuals.

## Conclusion

The Chinese Government has accepted the terms and conditions for accession to the WTO which the EU Council is asked to accept in the proposal for a decision. Although this rapporteur is convinced that internal Chinese criticism made important points and that several of the negative effects of WTO entry, such as rising unemployment, reinforced flight from the countryside into the big cities, social insecurity and widening of the social and economic gaps between different regions and social groups in China, will in effect take place, it would be to go too far to recommend that the EU Council ought to reject the agreements negotiated and oppose China's entry because of considerations about what is the best solution for the Chinese people. The EU cannot replace the Chinese Government. Also the implications of WTO entry for China are not given from the start, but will be decided by its implementation and by accompanying measures undertaken both by the Chinese authorities and by the EU and its businesses.

If EU businesses choose to abstain from exploiting cheap labour and weak labour and environmental regulations and instead decide to set good examples in accordance with the required behaviour in their home countries, several possible negative effects will be avoided

and a basis established for long-term confidence between these firms and Chinese civil society. But the main responsibility for coping with all possible problems in order to avoid social and ecological deteriorations remains, of course, with the Chinese political system. The challenges of WTO accession will undoubtedly test the ability of the present authoritarian system to adapt to new conditions in close contact with the popular will. The accession of an at least nominally Communist regime, at the same time the most populous country of the world with the second largest economy, into the core of market liberalism is a unique experiment.