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**SUTHERLAND OUTLINES CHALLENGES AND BENEFITS FOR CHINA
IN GATT MEMBERSHIP NEGOTIATIONS**

Mr Peter Sutherland, Director General of GATT, today (Wednesday 11 May) outlined some of the challenges facing China in its negotiations to resume membership of GATT and to become a member of the new World Trade Organization. At the same time he stressed the advantages of membership to China, particularly, in the light of the Uruguay Round results and of continuing autonomous economic reform.

Mr Sutherland was speaking in Beijing at a conference organized by the International Herald Tribune and the Chinese State Commission for Restructuring Economic Systems.

He paid tribute to the economic and trade reforms already undertaken in China and took a positive view of the prospect of early completion of the negotiations on the terms and conditions for China's rejoining the GATT.

At the same time, Mr Sutherland pointed to various concerns raised by governments in the Working Party handling the negotiations; these included the transparency and uniform administration of China's trade regime; certainty relating to the treatment of imports (including the application of quotas, licences and standards); and the role of state-trading enterprises.

Among the challenges still to be faced by China in its economic reforms Mr Sutherland cited: "greater access to the right to engage in foreign trade; more certain access to foreign exchange; better availability of services, including financial and transportation services, especially in the inland areas; and improvements in the management and performance of state enterprises".

The full text of Mr Sutherland's address is attached.

Note to Editors

Mr Sutherland was due to speak in Beijing at 09.40 hours (local time), Wednesday 11 May.

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**GLOBAL MULTILATERAL TRADING SYSTEM:
THE ROLE OF THE PRC**

Address by Peter D. Sutherland to the

**International Herald Tribune and
State Commission for Restructuring Economic Systems (SCRES)**

**1994 China Summit Meeting
The Socialist Market Economy: Cooperation with Global Business**

Beijing, Wednesday, 11 May 1994

It is a great pleasure for me to address such a distinguished group of government officials, business leaders and international journalists at this defining moment in China's history, and indeed, in the history of the world trading system.

Why do I say that China and the world trading system are at a defining moment in their history? Let us start with the global picture, and from there focus-in on developments in China.

The world's trading nations have just concluded what can fairly be described as the most significant event in global economic cooperation in the last 50 years: the conclusion of the Uruguay Round of multilateral trade negotiations in Marrakesh, Morocco. The conclusion of the Round and the creation of a new World Trade Organization (WTO) are tangible proof of the commitment of leaders around the world, across all regions, to undertake bold new steps in trade and economic reform on a comprehensive and broadly reciprocal basis.

What was agreed at Marrakesh finally fulfils the Bretton Woods design for global economic cooperation, putting trade back where it is supposed to be - on a similar footing to monetary policy and development finance. With the creation of the WTO alongside the IMF and the World Bank, the community of nations present at Marrakesh - China along with 124 other countries - have taken the fundamental step towards restoring stability and balance to the global system, a stability and a balance that should have been there from the start. I am convinced that the conclusion of the Uruguay Round completes a structure fit to bear the weight and meet the challenges of the future. What lies immediately ahead, of course, is an incredibly significant challenge: that of implementing the vast menu of new rules and market-opening commitments agreed at Marrakesh.

This momentous and historic development on the global scene coincides with equally momentous developments here in the People's Republic. China is at a defining moment in its history because the many economic reforms introduced in China since the 1970s - and particularly those of the last several years - show unmistakable signs of bearing fruit. Today a booming economy, China is set to reap an abundant harvest. China has benefitted from exceptionally high economic growth into the early

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1990s and now seems to be heading for a continuation of these high levels of growth, hopefully on a more sustainable basis.

China's economic reforms have given a far greater role to market forces and have led to a rapid liberalization of its foreign trade regime. Significantly, the National People's Congress recently has enshrined the principle of "socialist market economy" in the national constitution of China. And China, which ranked only 31 in world merchandise trade in 1980, ranked eleventh in 1993 (sixth if the European Community is counted as a single trader), accounting last year for three per cent of world merchandise trade.

This is a defining moment in China's history also because China is entering the final stages of negotiating its return to the GATT and is also poised to become a member of the WTO. In this regard, I welcome China's commitment to the principles and rules of a new world trading system, as most recently reaffirmed at Marrakesh. Given the magnitude of China's economy and the likelihood that China will assume a leading role in shaping the global economic environment of the next century, I think it to be of critical importance that close attention be paid to the manner in which China proceeds with its full integration into this newly-strengthened multilateral trading system.

Let me briefly review with you the history of China's relationship with the GATT. As you undoubtedly know, China was one of the 23 original contracting parties to the General Agreement but ceased to maintain relations with the GATT after the People's Republic of China was proclaimed. During the past decade, the relationship between China and the GATT has gradually become closer. In 1982, China became an observer in the GATT, and two years later joined the Multi-fibre Arrangement, a GATT agreement relating to trade in textiles. In June 1986, China submitted to the GATT a request to resume its status as a contracting party. This request has been under examination since March 1987. Then, of course, China has been a full participant in the Uruguay Round and looks forward to joining the new World Trade Organization.

It is now just over seven years - slightly longer than the duration of the Uruguay Round! - since the GATT Council established a working party to consider China's request for the resumption of its membership in GATT. As of mid-March of this year, the Working Party concluded its sixteenth meeting. It had concentrated in its early stages on an examination of China's economic and foreign trade regime in the light of GATT principles. But since late 1992 it has also been examining the provisions to be included in a draft protocol on China's status, thus initiating the final phase of the Working Party's activities.

The interest taken by GATT contracting parties in China's membership is apparent in the thousands of questions that participants in the Working Party have put to the Chinese authorities. China has been very patient in responding to these queries. Among the various concerns that have come to light in the course of deliberations are concerns about transparency in China's trade regime, uniform administration of the trade regime, certainty relating to the treatment of imports (including the application of quotas, licences and standards), and the role of state-trading enterprises.

I believe that China would be well-advised to take these concerns seriously. Because, while GATT rules do not oblige a country to open up all of its markets in an unlimited fashion, the WTO does provide rather precise guidance as to the various types of instruments to which member governments may resort in carrying out their individual economic and trade priorities. Transparency is the only

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vehicle by which multilateral scrutiny of such instruments can be achieved. And full transparency is the basis on which China's request for resumption will be judged.

China is to be congratulated on its most recently announced programmes of liberalization and reform, particularly those relating to the exchange regime, taxation, state trading, licensing, tariffs and non-tariff measures. Overhaul of the exchange regime with effect from the beginning of this year includes: unification of the Renminbi exchange rates, with abolition of the official rate and adoption of a single managed floating rate; conditional convertibility of Renminbi under current account; and establishment of an integrated and standardized foreign exchange market. Moreover, China has announced that it intends to move rapidly towards full convertibility of the Chinese currency.

In the area of taxation, also with effect from January 1994, China has announced the establishment of a unified, non-discriminatory value-added tax on products, eliminating the dual system of taxes which in the past sometimes treated imports less favourably than domestic products. In addition, China has recently announced the elimination of mandatory import and export plans, major tariff reductions on items of key export interest to trading partners, increased transparency in its standards and inspection regime, and the phasing out by 1997 of quotas and licensing requirements on most categories of imports. I am sure that producers, traders and consumers the world over, including those in China, are keen to see full implementation of these and other announced reforms.

All of which is to say, I clearly view most positively the prospect of early completion of the negotiations on the terms and conditions for China's rejoining the GATT. At the same time, I must emphasize that it is the contracting parties of GATT, together with China, that must agree on the protocol governing China's re-entry. While the GATT's Secretariat and its Director-General will continue to do everything possible to facilitate the process of negotiation, the final decision and its timing are ultimately up to the collective membership of this multilateral treaty.

China's ambitious programme of trade and economic reforms has contributed greatly to bringing China more closely into line with the world trading system. Yet, its trading partners regard it as maintaining a two-track system: a foreign-investment driven export production in the special economic zones (SEZ) and open coastal cities, accounting for a major proportion of China's growth in production and exports, combined with a considerably more restricted trading environment in the rest of China. Given the enormous economic success of the SEZs, which China has always regarded as laboratories allowing for experimentation in policies of liberalization and reform, one might wonder whether it would not now be timely to move to a policy of more rapid extension of these "experiments" to the rest of China. True and complete success of China's open door and reform policies can only be claimed once China extends the coverage of these policies to the whole of China's customs territory. Only then will China's 1.2 billion citizens be able to reap the rewards of what surely should be a truly bountiful harvest.

Among the challenges still to be faced by China's reforms, I would cite the following: greater access to the right to engage in foreign trade; more certain access to foreign exchange; better availability of services, including financial and transportation services, especially in the inland areas; and improvement in the management and performance of state enterprises. WTO membership will certainly foster more open trade and thus will undoubtedly help to resolve some of the macro- and micro-economic, infrastructural and social problems created by the fact that China is developing at several speeds. But it would seem that the faster China can move to a one-track approach, the better for all concerned.

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Observing the Chinese economy in the process of reform, one sees that China is essentially doing **autonomously** what the WTO would in any case oblige it to do. But consolidating these reforms in an international treaty can only enhance the security of these reforms: security both in terms of guaranteeing competitive conditions for export opportunities; and security in terms of activating policies within the national economy necessary to ensure dynamic and sustained economic growth.

Of course, China is understandably anxious to consolidate its reforms by rapidly concluding negotiations on its membership not only in the GATT 1947 but also in the new GATT of the WTO. In order to give you a more solid feel for the opportunities and challenges facing China under the newly-strengthened multilateral trading system, let me review with you the basic principles of the GATT and some of the more significant results of the Uruguay Round.

There are in essence three basic and interrelated principles of the GATT system:

- **open markets**, according to which import restrictions of all types other than tariffs are in principle prohibited, and tariffs are subject to negotiation; national treatment must be extended to imported products on the internal market;
- **non-discrimination**, according to which **most-favoured-nation** (equal) treatment must be extended at the border and internally for like products from all foreign sources; and
- **undistorted competition**, according to which the use of domestic and export subsidies must be limited.

In GATT's evolution over its 47 year history, the monitoring and implementation of the rules of the GATT system have been the major activity of its members. At the same time, the GATT has - since its inception - been a permanent negotiating forum. In this capacity, it aims to make national markets more and more open through the progressive dismantling of barriers which governments keep erecting at the border. The two aspects of rule-making and progressive market opening go hand in hand because liberalization would have no meaning if it were not underpinned by strong rules to ensure the security and permanence of the benefits involved.

The previous seven rounds of multilateral negotiations organized under GATT auspices led to a progressive reduction in tariffs and non-tariff barriers, as well as the revision and strengthening of the disciplines of the General Agreement so as to improve their application.

But the GATT has just completed its eighth - and by far the most ambitious - round of negotiations, the Uruguay Round, launched in September 1986 in Punta del Este, Uruguay. This Round had initially five aims:

- to bring into the system certain important sectors hitherto largely sheltered from competition: agriculture and textiles are two significant examples;
- to further improve market access by reducing tariffs and non-tariff barriers;

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- to strengthen the international trade rules in areas of anti-dumping and subsidies in particular, so as to guarantee economic operators the predictability and stability they need in order to produce and trade;
- to establish for the first time rules and disciplines in sectors of increasing economic importance, such as services and intellectual property;
- and finally, to remodel the institutional structures so that the multilateral trading system may continue to flourish and expand.

After seven years of intensive - and at times excruciating - negotiations, Ministers from the 125 participating countries finally gave their accord to the Final Act embodying the results of the Round on 15 April in Marrakesh. This legal text, over 400 pages long - over 26,000 pages if one counts the schedules of goods and services commitments, includes a balanced package of agreements covering all areas of the Round and, indeed, going well beyond the expectations of Ministers who launched the Round back in 1986. The package of agreements offers to all participants and their constituencies much strengthened multilateral rules and the benefits of broad-based liberalization on an unprecedented scope and scale. It is the biggest package of market access concessions ever negotiated.

Let us take a look at two areas of trade in goods, textiles and clothing, and agriculture, which will now be brought back into the mainstream of the trade liberalization process as a result of the Uruguay Round. In textiles and clothing, the Round has led to a specific programme to be implemented over a period of ten years, putting an end to the present system of bilateral export quotas under the Multi-fibre Arrangement and guaranteeing significant levels of tariff reductions. China will undoubtedly be a major beneficiary of this liberalization scheme.

The other sector which will immediately give a greater role to market forces - and be of equal interest to China - is agriculture. After much protracted negotiation, participants agreed to a package calling for: the tariffication of all non-tariff barriers at the border and their progressive reduction; the progressive reduction of export subsidies; the progressive reduction of internal support as far as it has a distorting effect on prices or is an incentive to creating surpluses; and the harmonization of sanitary and phyto-sanitary policies.

While coping with the special cases of textiles and clothing, and agriculture, participants in the Uruguay Round negotiations also carried out a detailed examination of all the rules and disciplines of the GATT which determine the parameters of competition. This has led them to clarify and strengthen various disciplines in such areas as: anti-dumping; government subsidies in all their forms, together with countervailing measures; safeguard clauses; rules of origin and customs valuation; import licensing; pre-shipment inspection; technical barriers to trade; and trade-related investment measures. The aim in each of these areas has been to offer to the operators in the market guarantees that are as solid as possible to the effect that competition will not be distorted through government intervention or through unfair practices by their competitors.

The same perspective has been applied to the negotiation of an agreement on the protection of intellectual property rights (TRIPS). There is indeed no other way to ensure such protection than to make sure that national legislation responds to the need to respect the interests of those who are at the source of the process of innovation and who deserve to draw equitable benefits from their

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contribution to this process. The concept of undistorted competition is as important in this area as in others.

Uruguay Round negotiators also produced a General Agreement on Trade in Services (GATS), extending multilateral rules to services trade for the first time in history. The GATS will cover many services activities, from banking and insurance, to transport, tourism, consultancy, telecommunications, construction, accountancy, films and television, and the provision of labour. Three key elements are included in the GATS: a framework agreement, which lays down general rules and principles such as non-discrimination, national treatment and progressive liberalization of access to service markets; annexes containing disciplines relating to particular services; and schedules of national market access commitments.

But all this would be incomplete if not sustained by a rigorous trade policy review process and a strengthened dispute settlement mechanism. The new World Trade Organization will provide a formal structure for administering the current and new trade rules and will, through its implementation of a single, integrated dispute settlement mechanism, assure effective enforcement of those rules. It will also make permanent the Trade Policy Review Mechanism established at the Mid-Term Review of the Uruguay Round in December 1988. Under this review mechanism, the WTO will examine, on a regular basis, the trade policies of individual members and assess their impact on the multilateral trading system.

Membership in this new World Trade Organization is open, without further negotiations, to participants in the Uruguay Round that are contracting parties to GATT as of the date of entry into force of the WTO. Of course, membership carries with it the obligation to implement all the multilateral agreements contained in the Final Act, in conformity with the single undertaking approach. If the negotiations on resumption of China's contracting party status and verification of its Uruguay Round commitments, including those on market access in goods and services, are completed before entry into force of the WTO, planned for early 1995, China would thus be eligible to join the new organization at that time. Even if the negotiations should stretch into next year, provision has been made to ensure that accession to the WTO can take full account of the results of the negotiations in the GATT context. Clearly, the importance of China's trade and economic potential make a successful conclusion to the negotiations a priority interest of all future members of the WTO.

What concrete benefits will accrue to China from a full participation in the multilateral trading system?

Some of the benefits are obvious.

China will benefit from an extension to it of all the trade advantages that have been negotiated among the 123 existing contracting parties to the GATT in the Uruguay Round. It will be entitled to export its products and services to the markets of other GATT contracting parties and WTO members at the rates of duty and levels of commitments negotiated in the GATT and in the Uruguay Round. This will include tariff bindings benefitting nearly 100 per cent of China's exports of industrial products to developed countries, with almost one-half of these products being subject to duty-free treatment. China will be provided with a multilateral forum for discussing trade problems and it will be entitled to resort to the formal dispute settlement procedures of the WTO if its rights are impaired by other contracting parties or members.

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The additional legal security from which Chinese exports will benefit under the WTO is likely to encourage even greater business confidence in the export sector and attract increasing levels of foreign investment.

Other advantages may be less obvious.

China will of course not only acquire rights protecting its exports, but also assume corresponding obligations in respect of its import policies. These obligations will no doubt entail the need to adjust current trade policies, and consequently also a restructuring of the Chinese economy. However, there is need to caution against an analysis of the benefits of WTO membership based on the idea that the obligations assumed under the WTO in relation to imports are merely burdens accepted to obtain WTO rights protecting exports. Such a mercantilistic approach to the evaluation of the benefits of WTO membership are short-sighted and superficial, and this for the following reasons.

As already noted, one of the basic principles of both the old and the new GATT is that protection should be accorded only through tariffs, not however through administrative restrictions on the importation of products or internal fiscal and regulatory measures discriminating against imports. Tariffs are the most transparent instrument of protection, the one that minimizes the burden on traders and leaves the greatest scope for the play of market forces. Accepting that principle as a guide for its own policies cannot but benefit China.

Moreover, it is often politically difficult to adopt policies that require enterprises to face up to foreign competition, to modernize and to restructure their production into areas in which they have a worldwide competitive advantage. This is true in all countries, whatever the economic system, whatever the decision-making procedures. In trade policy making, the voices resisting change are always heard more loudly than the voices favouring the adjustments necessary for an economy to grow. To conduct the national trade policy within the framework of WTO principles helps governments to correct this imbalance in the play of pressures and counter-pressures affecting trade policy making, and to conduct a trade policy that serves long-term, national interests rather than short-term sectoral interests.

At this stage in China's development, when its growth is significantly dependent on encouraging greater foreign investment, it would seem that China should not be overly preoccupied with achieving policies of balanced trade and balanced current account. A surplus capital account and its counterpart trade deficit are indicative of the future economic strength of China, not a sign of economic weakness.

Not only China will benefit from an active participation in the multilateral trading system. The system itself will also benefit. We should not forget that the founders of the multilateral trading system pursued objectives far beyond the establishment of rules on market access. For the architects of the post-war international economic organizations, multilateralism in trade was a means to create conditions of stability and well-being necessary for peaceful and friendly relations among nations. Indeed, this notion is reflected in the Preamble of the Charter for an International Trade Organization. As you know, the ambitious project to create an International Trade Organization failed, but the GATT took its place and has, in many respects, performed many of the functions which had been assigned to that Organization. However, it does so incompletely because of its limited membership. Because GATT rules are based on the assumption that members have economies largely based on market principles, the GATT was not able to become a truly universal organization so long as major trading nations maintained systems of central planning.

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With the changes in the former Soviet Union and the reforms undertaken in China, the GATT, and its successor, the WTO, now have the possibility of becoming more fully universal. But this potential has to be realized through a process of negotiation of reciprocal concessions. It is my hope and expectation that by becoming a member of the WTO, China will enable the WTO to move towards universality and thereby help fulfil more effectively its role in the system of collective security, for the benefit of China and for that of the world.

Before closing, I want once more to stress the importance of viewing WTO membership in the proper context. Yes, China's membership will increase the universality of the multilateral trading system and in other respects reflect positively on the evolution of international relations. But it should be emphasized that membership in the WTO is not simply "joining the club" but is, rather, entering into contractual undertakings, based on mutual benefit. Given the two features of Trade Policy Review and Dispute Settlement, already important instruments under the GATT but strengthened under the WTO, it is clear that the trade policies of individual members are going to be known to, and intensely scrutinized by, all members. Accordingly, it is imperative that China approach the negotiation of the terms and conditions of membership in a most forthright and open manner. Such an approach can only prove beneficial to China in that it will reduce trade friction.

I wish China and its people great prosperity and every success. I also wish China a speedy conclusion to negotiations ensuring China's full participation in the multilateral trading system.

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