

China, Taiwan and the WTO

Talk to the Asia Forum in Wellington on Thursday 2 November 2000

by

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Some of you know a lot more than I do about this subject. After I have opened it up I hope you will join in the discussion, and correct my mistakes.

After 14 years of negotiations, China is close to being admitted to the World Trade Organisation. Some problems have arisen at the last stage, though the American negotiator, Charlene Barshefsky, says they are not insuperable. Negotiations are now going on at the multilateral as well as the bilateral level. New Zealand is directly involved, as well as other members of the Cairns Group, developing countries and the European Union. Each of those parties is trying to get more specific commitments from China : the Chinese are resisting, and in some cases apparently trying to qualify commitments they have given earlier. The main issues for the US and the EU seem to be services - especially insurance and telecommunications. For New Zealand the problem is to get the Chinese to give effect to the arrangements agreed in 1997 on the allocation of tariff quotas for wool.

China's entry depended primarily on action by the United States Congress to lift the requirement that China's access to the American market be subject to review by Congress each year. The Bill giving China Permanent Normal Trading Relations has now passed both Houses of Congress and was signed by the President on 10 October. The vote in the House of Representatives was not as close as some expected: the majority in favour of the Bill was over 40 (out of 425). According to one American who was involved in the lobbying, the worry at the end was that the Bill would get too big a majority in the House and let the Senate off the hook. In the event, the majority for the Bill in the Senate was even larger than that in the House.

But the Congressional debates made it clear, once again, that there is a deep division of opinion in America about relations with China. The far Left and the far Right joined forces in opposing the Bill. The Federation of Labor supported the human rights lobby, and received some support from the Vice President, Al Gore. But the Bill was strongly supported by Big Business, which sees attractive prospects in China. And Big Business carried the day. A Republican Congressman who was visiting in New Zealand last year told us that China was not popular in Congress, but Trade is trade : that's different.

What is the deal between America and China? The main advantage for China is to escape from the annual review of its trade status which has given China's critics a field day in May each year. China gains assured access to the American market on the same basis as other countries. The US currently takes a bigger proportion of Chinese exports than those of most other countries; so this gain is of great importance to Beijing. But, even for the Chinese, the chief gain is to continue the process of opening up China to get the benefit of worldwide trade liberalisation under the WTO.

On the face of it, the US gains even more than China. According to President Clinton's article in the International Herald Tribune for 25 September, Chinese tariffs from telecommunications to autos to agriculture will fall by half or more.

We will be better able to sell and distribute American made goods in China without relocating our factories or selling through the Chinese government, or transferring technology.

This is what interests Big Business. No less important is the protection provided by the WTO for copyrights and patents, which are of great interest to Hollywood.

But if we viewed the passage of permanent normal trade relations solely as an economic opportunity, we would be missing the main point, says Clinton. At stake is how China evolves over a decade or more. Will it resist globalisation, or harness it to meet human needs?

So the balance of advantage under the WTO agreement lies with the US, but there are plenty of advantages for China too. The main one is to keep the American market open and continue the process of development through exports launched by Deng Xiaoping in 1978. The US Trade Representative, Charlene Barshefsky, said recently that, without that political consideration, the deal would have been much more difficult to sell.

Problems remain, of course, and they will go on causing trouble in the relations between China and other countries - especially the US. China's policy of devolving authority, to the provinces and below, will make it harder to carry out trade obligations, especially in the case of patents and copyright. Real problems like this will be played up by those who are less interested in economics than in politics. Issues like human rights and arms sales will go on complicating the trade relationship, and causing fluctuations, sometimes quite violent, in the trade field.

The hardest problem is Taiwan. In the article mentioned above, Clinton says, Taiwan will join the WTO immediately after China. He does not explain how this is to be arranged. In 1992, the Chairman of the GATT Council announced three principles :

All contracting parties (to the GATT) recognise that there is only one China;
Taiwan would enter the GATT under the name Chinese Taipei;
Taiwan would not get in before the PRC.

This formula is apparently Beijing's preferred solution to the problem. Whether it is acceptable to Taiwan, or to the US, is not yet clear.

The Mainland, as it is called in Taiwan, is already one of the island's main trading partners, and areas of investment. Taiwan investments on the Mainland amount to something like US\$50 billion. Clinton says, Their economic ties will deepen further, and as well the costs of confrontation. The business community in Taiwan - and on the Mainland - has a strong interest in preventing conflict, or even confrontation, in the Strait. But there are, especially in the political party the President leads, continued demands for higher international status, and if possible, independence. Presumably for this reason, Chen Shui-bian refuses to accept the One China principle in the form Beijing regards as essential for further negotiations. China, for its part, does not respond to the overtures he has made since his election, even though this

costs China support in the outside world. There are some indications that Beijing is waiting to see who the next US President is going to be before trying to respond to Chen's challenge.

In the past few months, the government in Taiwan has gathered support even in New Zealand by stressing that Taiwan is a democracy and the Mainland is not. Chen is not, for the time being, talking of independence for the island, but he is keeping that option open, presumably to keep pressure on Beijing. It may be that the two sides are in communication, either directly or through intermediaries. They are both Chinese, and probably understand each other better than outsiders do. But the two Chinese sides are not alone. The US is also involved, and some Americans have agendas of their own. From the beginnings of their history, Americans have had an urge to remake others in their own image. This urge is usually restrained by pragmatic considerations like trade, as it was earlier by hostility towards the Soviet Union. But the urge is still there, and it has a tendency to emerge again in the context of a Presidential election. Then suspicion, distrust and fear re-emerge to accentuate the fluctuations in the fragile relationship, as one American scholar has called it. But, so far, China has not become an issue in the present election campaign, nearly as much as it did in 1992.

The latest complication is the American proposal to build a Theatre Missile Defence System in East Asia, to complement the national system which is designed to protect the US itself from any attack by Rogue States like North Korea or Iraq. The recent Summit meeting between the leaders of North and South Korea reduces the credibility of the North Korean threat, and highlights the possibility that the TMD system at least may really be designed to limit China's scope for the use of its missiles as a deterrent. Some Americans think that an arms race is already inevitable and has to be accepted as the basis for military planning. There seems to be a powerful lobby in Washington for proceeding with missile defence systems. It is rationalised in various ways, few if any of them convincing to America's allies and friends.

It looks as if relations between America and China are doomed to remain volatile and dangerous, at least for the first decade or two of the new millennium. Some argue that rivalry between the only remaining superpower and a resurgent China is inevitable - though few believe that conflict is inevitable too. The key point is that, though war is not unavoidable, it is not impossible either. The danger is certainly grave enough to justify sustained efforts to avoid it.

Can New Zealand do anything to help avoid conflict between China and America? Not much - though the meeting that took place last year in Auckland between Clinton and Jiang showed that there are occasions when we can at least be helpful to the parties. The main thing we can do to help head off disaster is negative - not to rock the boat by encouraging either side to take unilateral action. This means sticking to the position we adopted in 1972 - recognising the PRC as the sole legitimate government of China, and acknowledging its view that Taiwan is part of China. We can and do have economic and cultural links with the island, and Beijing does not object to them, but any upgrading of our relations with Taiwan to government level, could have serious repercussions, and could cause serious loss to New Zealand.

The entry of China into the WTO, with Taiwan, will be a milestone in the development of world trade, as well as regional cooperation. It should encourage economic growth in the whole Asia-Pacific region, and help to maintain the prosperity which is most conducive to continued peace. It should enable New Zealand to go on trading with both China and Taiwan, and benefit from their growth, as they do from ours.