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# China's membership in the WTO – a headache for neighbouring labour markets?

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When China joined the WTO in 2001, numerous studies were made to assess the impact of this decision on both the growth of trade and investment in the Republic and on the potential effects on its labour markets. While the long-term projections are positive, short-term effects on the labour market will be negative in certain sectors. Enormous adjustments in agriculture, car manufacturing, in the electrical industry or in mining will cause more than 20 million job losses.

But there is another side of the coin. At least under the present scenario, the admission of China to the WTO does not result in a "win-win-situation" for the Asian region. China already is the fourth-largest industrial producer in the world at present behind the US, Japan and Germany. In the future, China will "suck in" investments like a huge vacuum cleaner to an even greater extent. Foreign direct investment will probably rise from USD 40 Billion in 2001 to about USD 100 Billion in 2005, if China really opens up, especially in services such as telecom and financial services.

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All this may take place at the expense of workers in neighbouring countries, with ASEAN at the centre. These countries have similar export industries to those of China, and have focused in the past on labour-intensive export industries with limited intensity of capital and technology.There will be both pressure on their domestic markets as a result of cheap imports from China and a further reduction in exports and the relocation of manufacturing and foreign direct investment. Yet in the last ten years ASEAN`s share in FDI for developing Asia has already dropped from 30% to 10%.

It will be primarily the developed countries which will benefit from this shift in the multilateral trading system by gaining both better access to the Chinese markets and greater opportunities for investment, in particular in the services sector. Producers of agricultural and other primary resources will also benefit from an increased demand for such products in China.

However, producers of, for example, textiles and garments such as Vietnam and Indonesia, and also of high-value electronic equipment such as Thailand and Malaysia will be affected. And South-Asia and beyond will also feel the effects. By the end of 2004, the Multi-Fibre Agreement will expire and be replaced by the WTO-Agreement on Textiles and

Clothing. According to studies, the Chinese share in the world trade of textiles and garments could rise from 20% at present to more than 40% in 2005. This will mainly hit those countries who have made use of the quota system, such as Bangladesh or Cambodia. Since in some of these countries the textile companies are already owned by Chinese nationals, all they have to do now is to relocate their production to mainland China.

Being a global manufacturer, China is even becoming a powerful global deflationary force. It is pushing down industrial and consumer prices around the world with its "tremendous competitiveness". According to a FEER-Report (October 17th, 2002) in the United States, many retail prices of goods such as electronic equipment, tools or sportsware have been falling since 1998 at an annual rate of between 1% and 9%. The magazine also notes that this competitiveness is largely due to an almost endless supply of cheap labour; it helps companies not only to control costs, but often to cut them dramatically.

A World Bank Study forecasts that China´s membership in the WTO will result in losses in net terms of USD 2,5 billion for India, 574 million for the other South–Asian countries and 73 million for Indonesia. There is obviously not enough room in the region for too many countries with similar growth strategies. The enormous pressure on the labour markets of these countries may potentially accelerate a "race-to-the-bottom" spiral with corresponding effects on wages, working conditions and the bargaining power of trade unions. Policy-makers, and also stakeholders like trade unions will have to resolve these problems in order to prevent or at least to reduce the negative consequences.

Against this background, the Singapore Office of the Friedrich-Ebert-Stiftung, a German political foundation close to the Social Democratic Party and the Labour Movement (www.fes.de), organised a conference from September 9-10 with the aim of drawing up recommendations which might enable the entire region to benefit from China's entry into the WTO and protect the interests of labour and trade unions. The meeting brought together participants from all major ASEAN countries including representatives of labour institutions, relevant government agencies as well as national and international trade union organisations, amongst them participants from the P.R. China in order to ensure that it would not be merely a discussion about, but with the Chinese. In fact, China's own commitments in this process are substantial, far in excess of expectations, by including a number of special provisions in the Protocol of Accession which allow trading partners to deviate from the WTO concept of non-discrimination in cases of serious market disruptions.

Two major questions were discussed at the meeting:

- How to protect workers in the process of structural adjustment in industries affected either directly or indirectly by China's WTO-Membership?

- And in addition, how to protect jobs? How to develop national and regional economic alternatives from a trade union point of view?

With regard to the first issue, the conference called for both a national accord on job security and a multi-stakeholder approach to industrial relations instead of a "race-to-the-bottom". In such a difficult situation, it is vital that trade unions are united in order to be able to deal with the challenges. In their political decision-making, governments will only consult those trade unions which are sufficiently strong.

But trade unions also need a strong voice in connection with alternative economic policies which protect employment and create new jobs. Prof. Rajah Rassiah from the United Nations University in Maastricht referred to some elements of such alternative policies. They include greater investment in basic and research and development infrastructure, and also better regional economic coordination. ASEAN countries have extensive natural resources, a large diversity of industries, emerging economies and 500 million workers and consumers. If their markets were better integrated, domestic capital markets upgraded and trade barriers lowered, AFTA might also benefit from economies of scale following China´s example.

Unfortunately, current developments in ASEAN do not point in that direction. The ASEAN culture of non-interference in internal matters and of avoiding conflicts hampers such a development. This applies to another important precondition for attracting investments as well, notably clean governance, transparency and legal predictability.

Leaders from ASEAN and China signed an agreement in Phnom Penh in early November 2002 with the aim of forming between them the largest Free Trade Zone in the World by the year 2013. But observers are not too optimistic considering the growing number of bilateral trade agreements which countries such as Singapore, Thailand and the Philippines are attempting to negotiate with the US or European countries. Malaysia wishes to continue to protect its domestic car industry, while the Philippines intend to maintain higher tariffs for petrochemical products and so forth. ASEAN has already seen a number of economic integration plans which failed to materialise.

This is an urgent problem which needs to be tackled soon because to resolve it is a matter of survival for many trade unions in the affected industries in South-East Asia. The conference participants decided to meet again in early 2003 in order to agree on concrete measures, such as drawing up an "AFTA Social Contract", and on economic alternatives with which to protect employment in the region without going into a social "race-to-the bottom".

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