China's entry to WTO: global marketing issues, impact, and implications for China

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Abstract *The transition from a command economy to a market-based economy has been remarkably successful in China. After 15 years of negotiations, China finally joined the World Trade Organization (WTO) in December 2001. Because of trade and investment liberalization under the WTO, there will be greater competition between Chinese and foreign firms, both inside China and outside China. While there is a great deal of economic literature on China's entry to the WTO, there has been no research on the global marketing impact and implications of China's membership of the WTO. This paper is an attempt to fill this gap. The objective of this study is to examine the general impact of China's entry to the WTO and to assess the global marketing implications of specific trade-related policy issues within the WTO framework for China. Eleven specific WTO policy issues are examined and several global marketing propositions offered in terms of the WTO's impact on and implications for China.*

Introduction

Since the introduction of economic reforms and an open-door policy in 1978, China has emerged as a key player in the global economy. The pace of the internationalization of the Chinese economy is very impressive. The Chinese economy has undergone extensive transformations during the last two decades. The economic reforms introduced in 1978 have resulted in high economic growth and rapid industrialization in China. With gross domestic product (GDP) growing at nearly 10 percent a year, China is the fastest growing economy in the world. High economic growth has transformed China into the world's seventh largest economy.

By all measures, the transition from a command economy to a market-based economy has been remarkably successful in China. During the ten-year period between 1990 and 2000, China's merchandise exports grew very rapidly, with an average growth rate of 15 percent per year (World Trade Organization, 2001a). By 2000, China had emerged as the world's seventh largest exporting country, with an export value of more than US$249.3 billion (World Trade Organization, 2001a). Similarly, China's merchandise imports also increased at an impressive rate of 15 percent a year between 1990 and 2000. With an import value of US$225.1 billion, China became the world's eighth largest importing country in 2000 (World Trade Organization, 2001a). By 2000, China's trade sector had surged to 43.9 percent of its GDP (from 10 percent in 1978), making China one of the most trade-dependent countries in the world.

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During the last two decades, China's rapid growth in foreign trade has been accompanied by a large influx of foreign capital. With low production costs and a huge market potential, China has also attracted massive inflows of foreign direct investment (FDI) into the country. This is in sharp contrast to the situation in China prior to 1978, when the country attracted almost no FDI. Due to an unprecedented FDI boom, China has become the second largest recipient of FDI, after the United States. In 2000, China attracted a total of US$41 billion in FDI inflows (United Nations, 2001). By 2000, the total FDI stock in China had grown to US$346.6 billion, creating more than 203,208 foreign firms in the country (National Bureau of Statistics of China, 2001). This high level of FDI flows has transformed China into the world's major center of manufacturing, not only in labor-intensive industries such as footwear, clothing and textiles, but also in technology-intensive industries such as electronics, computers, and telecommunication equipment. With rapid expansion in foreign trade and investment, the Chinese economy has become much more integrated into the world economy.

In the last few years, there has been a great deal of literature on China's entry into the WTO (Anderson, 1997; Rhodes and Jackson, 1999; Morck and Yeung, 2000; Zhang, 2000; Kong, 2001; Lin, 2001; Martin, 2001; Liu and Woo, 2001; Wang, 2001; Wen, 2001; Yang, 2001). However, the vast majority of these studies focused on sectoral analyses and the macro-economic implications of China's entry into the WTO. The objective of this study is to examine the general impact of China's entry into the WTO and to identify and assess the global marketing implications of specific issues within the WTO framework for China. First we examine the general impact of the WTO on China's trade and inward FDI, and provide theoretical explanations. We then present the WTO framework and identify 11 key issues, and discuss the global marketing impact and implications for China.

General impact of the WTO on China's trade and investment

After 15 years of negotiations, China finally joined the World Trade Organization (WTO) in December 2001. The WTO framework includes the three basic principles concerning the trade administration system: uniformity, transparency and judicial reviewability (World Trade Organization, 2002). In the case of China, this means that China must ensure that the provisions of the WTO Agreement are applied uniformly through its entire customs territory, including at the sub-national level (He *et al.*, 2001). Second, China will make its laws and regulations affecting foreign trade readily available to other WTO members, individuals and enterprises, thus ensuring transparency. Third, China will make its trade administration actions subject to prompt judicial review. China has agreed to establish independent tribunals, contact points and procedures for the prompt review of all administrative actions by the Chinese Government with respect to trade-related laws and regulations.

There is no question that there will be a significant impact on the Chinese economy as a result of trade liberalization under WTO. China has agreed to significant reductions in tariff and non-tariff barriers over the coming years. The majority of studies conclude that China's economy will benefit from its accession to WTO, though conclusions differ with respect to the size of economic gains. Most studies conducted on the basis of sectoral analysis indicate that there will be an increase in China's GDP and economic welfare as a result of its accession to the WTO (Yang, 1996; Anderson, 1997;

Wang, 1997; United States International Trade Commission, 1999; Li and Lejour, 1999; Fan and Zheng, 2000; Zhai and Li, 2000; Lejour, 2000; Ianchovichina and Martin, 2001).

From the perspective of the theory of comparative advantage, China's accession to the WTO will lead to a switch of comparative advantage among various exporting countries. It is estimated that the expansion of China's exports will replace similar exports from other Asian and developing countries due to cheap labor (the cheapest in Asia after Indonesia) and excess capacity from government-initiated structural reforms (Lo, 2002). WTO members will redeploy scarce resources in favor of China in order to gain allocation and production efficiencies. While allocation efficiency stems from the comparative advantage in which resources are allocated among firms and industries in the lowest-cost country, production efficiency stems from economies of scale as a result of increased market size. Therefore, in the short term, when the trade pie is constant, trade diversion will strengthen China's labor-intensive exports at the expense of other developing countries (Tait and Li, 1997). In the long term, as the trade pie expands, with China being fully integrated into the world economy, a new pattern in comparative advantage may emerge (Graham and Richardson, 1996). In the long term, there will be a continual increase in capital- and technology-intensive investment as China's cheap labor advantage of the early days gradually diminishes over time.

China's entry to WTO will also attract more foreign direct investment, with an estimated average annual growth rate of 11 percent from 2002 to 2004 (Ma and Wang, 2001). This is mainly due to more efficient allocation of production factors through increased specialization according to China's comparative advantages, a more rapid physical capital accumulation, and a rapid growth of factor productivity due to technology transfer (Ma and Wang, 2001). The impact of WTO on China's inward FDI can be explained from a theoretical perspective. The theory of market imperfections (Hymer, 1976; Kindleberger, 1969) implies that the existence of imperfect markets in the host country and the unique resource advantages the multinational firms possess act as catalysts for FDI (Barney, 1991; Hunt and Morgan, 1996). These imperfections may exist in the goods market, factor market, competition, and government policies.

Although significant improvements have been made recently, firms and government in China have been welded into a closed system, thereby preserving many market imperfections (Boisot and Child, 1996). The WTO offers a framework to reduce market imperfections in China. China's reform in governmental policies affecting trade and investment will hinge upon WTO principles of national treatment, transparency, and judicial reviewability. While China is likely to continue to receive the bulk of foreign investment in Asia, growth in FDI inflows to China will not necessarily come at the expense of the rest of Asia. Rather, because of global outsourcing, the Asian investment pie will continue to grow despite slowdowns in other triad countries (Lo, 2002).

In summary, China is expected to benefit both in trade and inward FDI as a result of its accession to the WTO. The following section focuses on various trade-related specific issues that form a part of the WTO framework, and on their global marketing implications for China.

Global marketing issues and the impact of the WTO on China

China's trade regime and its related institutions were not fully compatible with the rules and changes required by WTO accession. As part of the accession package, China has pledged to reform domestic policies or institutions that are in conflict or incompatible with the WTO rules and principles. In this section we conduct an assessment of the impact of the WTO on China with regard to specific trade-related policy issues, and offer corresponding propositions. These specific trade-related issues within the WTO framework are:

- import and export licenses;
- rules of origin;
- customs valuation;
- standards;
- subsidies and countervailing measures;
- antidumping measures;
- safeguards;
- trade-related aspects of intellectual property rights;
- trade-related investment measures;
- trade in services; and
- e-commerce.

Table I contains a brief summary of the global marketing impact and implications for China.

Import and export licenses

China has agreed to eliminate "any export performance, trade balancing, foreign exchange balancing, and prior experience requirements, such as importing and exporting, as criteria for obtaining or maintaining the rights to import and export" (World Trade Organization, 2001b). The framework stipulates that China will phase in trading rights on a progressive schedule within three years of its entry into the WTO. Foreign-invested enterprises will be allowed to import and export all but a few types of products and technologies throughout China. Further, China is also committed to allow trading rights within three years to foreign firms not invested in the country. The WTO package for China ensures that the three-year phase-in period for liberalization in trading rights is also coordinated with liberalization of distribution and sales rights. Under the WTO, China will allow foreign firms to form wholesale joint ventures to distribute all imported and domestic products beginning one year after accession, with some exceptions. Within two years of accession to the WTO, foreign majority ownership will be permitted and all geographic and quantitative restrictions will be phased out.

With the rapid liberalization of import and export policies, China will continue to witness an increase in labor-intensive products. For example, the greatest increase in exports will be apparel, electronics, leather and footwear, textiles, and non-grain agricultural products. Moreover, Multi-Lateral Fiber Agreement (MFA) quotas against textile exports from China will be gradually removed. On the other hand, the greatest increase in imports will be land-intensive and capital-intensive products such as grains, oilseeds, plant-based fibers, and automobiles (Chen, 2002). The land-based agriculture sector, due to a low level of mechanization and technology application, will be left at a disadvantage relative to foreign competition. The industrial sector will see a

Table I. Summary of global marketing issues, impact, and implications for China

Issues	China's pre-WTO policy	China's post-WTO policy	Impact	Implications
Import and export licenses	Limitations on foreign firms to set up trading companies Trading rights notice Trade monopoly of state	Phasing in of trading rights and distribution rights on a progressive schedule within three years MFA quotas against textile exports from China gradually removed	Exports will increase significantly (especially in labor-intensive products and textiles and clothing) Domestic agricultural sector may be at disadvantage Domestic industrial sector will be faced with consolidation and increased foreign competition Gradual increase in wholesale FDI ownership	Increase in global export market Increase in foreign competition in industrial sector and wholesale and retailing sector – shorten distribution channel and enhance quality Acquisitions and mergers as a result of increased competition Development of relationship marketing of domestic firms with multiple stakeholders
Rules of origin	Subjective, unpredictable, and non-transparent – used as an instrument to pursue trade objectives directly or indirectly	Harmonized non-preferential rules of origin (economic criterion) Preferential rules of agreements with trading blocs (preferential criterion) Objective, understandable, predictable, transparent, and based on positive standard	Imports will increase as trade disputes lessen Exports based on imports will increase	Both economic and/or preferential criteria will determine import price Value chain concept – redistribution of production value chain for global products Global sourcing strategy – country-of-origin implications for products made in multiple countries Development of upstream (supplier) relationship marketing
Customs valuation	Minimum or reference price	Transaction value in general although in some cases deductive value and computed value	Difficulty in using transfer prices may affect inward and outward FDI (although modestly)	Transfer prices set between MNC headquarters and subsidiaries Transfer pricing model based on comparable uncontrolled price Transfer pricing audits
Standards	Taken active approach in international standards Local content and technology transfer requirements Discrimination in standards between domestic and imported products	Compliance in general with agreement on technical barriers to trade Discussions under way regarding local content and technology transfer	Imports will increase as technical barriers to trade are diminished If requirements of technology transfer are eliminated, there may be an increase in contractual agreements and joint-ventures	Standardization of product technical standards Marketing advantages of implementing the ISO 9000 standards

(*continued*)

Table I.

Issues	China's pre-WTO policy	China's post-WTO policy	Impact	Implications
Subsidies and countervailing measures	Export subsidies at all levels of government (prohibitive and actionable) Subsidies for use of domestic goods over imported goods	Gradual compliance with WTO Agreement on Subsidies and Countervailing Measures (SCM)	Exports will become more competitive in global market Inter-sectoral reallocation of resources to gain comparative advantage efficiencies Foreign firms in China protected under judicial reviews against arbitrary actions	Export pricing and domestic pricing of products based on fair competition Development of market price system
Anti-dumping measures	Anti-Dumping Regulation of 1997 Reduced transparency in dealing with anti-dumping cases	Compliance with WTO Anti-dumping rules Gradual progress in transparent and liberal filing extensions, hearings, and independent review tribunal	China's exports will increase over time as domestic pricing replaces third-country reference pricing under "market economy" status China's imports will also increase as it softens its anti-dumping measures against foreign competitors	Export pricing based on domestic price rather than third-country reference price – may be more competitive in global market and less subject to anti-dumping cases Penetration pricing may trigger anti-dumping action Product differentiation and service enhancement strategy may reduce anti-dumping cases against China
Safeguards	Grey area practices and no sunset clause	Compliance with WTO Agreement on Safeguards Temporary relief provided to WTO members if qualified	Product-specific safeguard measures initiated by some WTO members may have limited and temporal moderating effect on China's exports in the short term. In the long term, there will be an increase in Chinese exports	More difficult for developed-country WTO members to impose duties and quantitative restrictions and other safeguard measures due to abolition of grey area practices – greater market access and more competitiveness in global market for Chinese exporters

(*continued*)

Issues	China's pre-WTO policy	China's post-WTO policy	Impact	Implications
Intellectual property rights	Generally IP laws were compliant with TRIPS in theory – however, poor enforcement regime	Compliance with WTO Agreement on Intellectual property Rights (TRIPS) National treatment commitment and MFN clause Gradual increase in enforcement and setting up of judicial system	In the short term, there may be an increase in counterfeit products. Over the transition period and in the long-term exports of counterfeit products will decline In the long term, there will be an increase in contractual agreements such as technical licensing and joint-ventures since dissemination risk will be reduced with greater compliance with TRIPS	Protection of copyrights, trademarks, patents, and other IP rights Growth in R&D activity in subsidiaries Growth in different entry modes especially contractual arrangements such as licensing, franchising, strategic alliances Growth in long-term equity participation by foreign firms
Trade-related investment measures	Local content requirements Requirements of scale and technological sophistication Investment ceilings	Compliance with WTO Agreement on Trade Related investment Measures (TRIM) China can impose transfer of technology in compliance with TRIPS	Increase in inward and outward FDI, export promotion, and technology transfer in compliance with TRIPS	Growth in capital formation, export promotion, and technology transfers
Trade in services	Heavily regulated sector Territorial, quantitative, and qualitative restrictions	Compliance with WTO General Agreement on Trade in Services (GATS) – although in progressive stages given the nature of the transitional economy and infancy of services industry	Given "market in transition," there will be gradual increase in inward FDI and contractual agreements in the service sector such as wholesale and retail trade channels, telecommunications, banking, and insurance	Increased competition for domestic firms in services sector – leading to service quality and technological enhancement Growth in global advertising firms in China Agency-client relationship in decision making
E-commerce	Heavily controlled by government – four tier system Foreign investment not permitted in service nor content	Phased in liberalization – within 2 years, 50 percent foreign ownership Geographic restrictions lifted	Growth in Internet service provision and content with phased-in liberalization Weak services infrastructure and strong government control may slow down growth of e-commerce in the short term	High potential of Internet as promotional medium Growth in e-commerce trade – in different stages of the value chain – over time

Table I.

consolidation of firms via mergers and acquisitions to overcome China's low industrial concentration and over-capacities in production (Chen, 2002). China's industrial sector will face increased foreign competition resulting in industry-wide resource reallocation and consolidation. Based on the foregoing discussion in this section, we offer the following propositions:

P1. With the liberalization of import and export policies, China will continue to witness an increase in labor-intensive exports and capital-intensive imports in the short term.

P2. China's industrial and distribution sector will face increased foreign competition, resulting in industry-wide resource reallocation and consolidation activities such as mergers and acquisitions.

Rules of origin

Rules of origin are the criteria used to define where a product is made. These rules are designed to harmonize non-preferential rules of origin and eliminate or reduce discrimination between countries on the basis of quotas, preferential tariffs, anti-dumping actions and countervailing duties. As per the WTO Agreement, China has agreed to apply the country of origin criterion (economic origin) to the last country in which the product underwent substantial transformation when an imported product was processed and manufactured in several countries. In determining substantial transformation, there are two requirements:

(1) The value-added component is 30 percent or more in the total value of a new product.

(2) Change in tariff classification of a four-digit tariff line in the Customs Tariff (World Trade Organization, 2002).

Moreover, China has pledged not to use the rules of origin as an instrument to pursue its trade objectives, either directly or indirectly.

China will adopt and apply the internationally harmonized non-preferential rules of origin. China is also obligated to ensure its domestic laws, regulations and other measures relating to rules of origin are consistent with the WTO Agreement on rules of origin upon its accession. However, while the WTO tries to harmonize the economic origin criteria, trading blocs and countries that conclude agreements with other trading blocs and countries can also create their own set of preferential rules (preferential origin) such as the generalized system of preferences adopted by the US toward developing countries. Based on the preceding discussion, we offer the following proposition:

P3. In harmonizing the economic origin criteria and preferential origin criteria, China will witness an increase in imports and consequent import-based exports as trade disputes lessen.

Customs valuations

The WTO Agreement on customs valuation aims for a fair, uniform, and neutral system for the valuation of goods for customs purposes – a system that conforms to commercial realities, and which outlaws the use of arbitrary or fictitious customs values. In the past, China used minimum or reference prices for imported goods.

This practice was inconsistent with the Customs Valuation Agreement (World Trade Organization, 2001b). China has agreed to cease this practice of using minimum or reference prices for determining customs value, and is committed to full compliance with the Customs Valuation Agreement.

Based on the WTO valuation rules, the sales price for a good in the country of import is the primary method to be applied (i.e. transaction value) subject to the fulfillment of specified conditions that make up a transaction (World Trade Organization, 2002). When the customs value cannot be determined on the basis of the transaction value of imported goods, it will be determined on the basis of the unit price at which the imported goods are sold to an unrelated buyer in the greatest aggregate quantity (i.e. deductive value). Under exceptional circumstances, the most difficult method of computed value will be used in determining the customs value on the basis of cost of production plus an amount of profit and general expenses.

This has significance for multinational firms and cross-national subsidiaries that have transfer pricing policies in place with retrospective price adjustments and are used as basis for customs valuation. Traditionally, firms have used lower transfer prices in countries with high market growth rate, market imperfections (e.g. price control), and low tax regimes (Al-Eryani *et al.*, 1990; Cavusgil, 1996). However, in more and more countries, the exchange of information between corporate income tax authorities and customs authorities has increased, rendering the use of transfer pricing more difficult. Hence we offer the following proposition:

P4. Firms in China are obligated to use the pricing model of customs valuation based on transaction value and not minimum or reference price. It is likely that this may affect inward and outward FDI in China, albeit modestly.

Standards

The WTO Agreement on Technical Barriers to Trade tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles. The agreement says that the procedures used to decide whether a product conforms to national standards have to be fair and equitable (World Trade Organization, 2002).

Since 1980, China has taken an active approach in adopting international standards as the basis for technical regulations in pursuit of economic growth and modernization. Over the last 20 years, the use of international standards as the basis for technical regulations had increased from 12 to 40 percent (Keck, 2000). As a new WTO member, China has agreed to use international standards as the basis for product standards and technical regulations for both imported and domestic goods. China has agreed to comply with the terms of the Agreement on Technical Barriers to Trade, though differences still remain over special commitments being demanded of China in the technical standards area. Thus the following proposition is put forth:

P5. China's conformance to standards will lead to standardization, resulting in an increase in imports as technical barriers to trade are diminished.

Subsidies and countervailing measures

The WTO Agreement on Subsidies and Countervailing Measures (SCM) sets out disciplines on the initiation of countervailing duties and rules of evidence to ensure objective assessment of arguments. There are detailed rules for deciding whether a product is being subsidized, the category of subsidies (namely prohibited, actionable, and non-actionable), whether subsidized imports are hurting domestic industry, and the duration of countervailing measures. However, the WTO Agreement on SCM recognizes that subsidies may play an important role in the economic development of developing and centrally planned countries into market economies. Some developing countries are therefore exempt, and others have a period of eight years after WTO entry before the agreement takes effect.

China has made a commitment to implement the SCM Agreement in a manner that is fair and equitable to China and other WTO member countries (World Trade Organization, 2001b). Under the terms of accession, China has agreed to eliminate all export subsidies provided by all levels of government. Upon accession, China's state trading enterprises are no longer permitted to benefit from export subsidies. Moreover, subsidies for the use of domestic over imported goods will be eliminated. China has made commitments toward fair competition by allowing imported products to compete on an equal footing with domestic products (World Trade Organization, 2001b).

As a result of conformance to the SCM agreement, exports from China will be more competitive due to fair competition. With the diminishing role of state enterprises and intense competition, there will be inter-sectoral reallocation of resources to gain comparative advantage efficiencies. Both export and domestic pricing will be based on a market-based pricing system (World Trade Organization, 2001b). Following China's accession to the WTO, foreign firms are also protected from the country's arbitrary administrative actions through the establishment of a judicial review process. Thus:

P6. With the elimination of prohibited and actionable subsidies and the development of a market price system, exports will be based on fair competition in global markets.

Antidumping measures

If a country exports a product at a price lower than the price it normally charges in its own home market, it is said to be "dumping" the product (World Trade Organization, 2002). The WTO allows governments to act against dumping where there is material injury to domestic industry. The WTO agreement focuses on how governments can or cannot react to dumping.

China's State Council promulgated their Antidumping and Anti-subsidy Regulations in 1997 (Almstedt and Norton, 2000). The regulations aim to counter the effects of dumping or subsidization of exports that result in substantial injury or the threat of substantial injury to an established domestic industry. For exports from China, the determination of dumping and its margins have been based on third-country reference prices instead of Chinese domestic prices. This is because economies undertaking anti-dumping actions have treated China as a non-market economy. This is a major concession made by China in order to join the WTO. WTO members are permitted to take the special characteristics of China's economy into account when they apply countervailing laws to subsidized imports from China. In short, this means that foreign manufacturers will have strong protection against rapid increases of Chinese imports under WTO.

For imports to China, the recent increase in antidumping actions originates in the growing sophistication of China's trade laws and vulnerable industries. China has been wielding the antidumping weapon against exporters from developed countries.

However, as a WTO member, China will have to conform to the Agreement on antidumping, subsidies and countervailing measures. It has been argued that anti-dumping has a strong protectionist flavor to safeguard local industry and may facilitate collusion between domestic import-competing firms or overseas exporters (Markusen *et al.*, 1995). Hence, in the case of China, anti-dumping measures should be used with caution after carefully assessing the resulting economy-wide welfare effects (Dong *et al.*, 1998). Based on the foregoing discussion, we posit the following:

P7. China's exports will increase over time as domestic market pricing under market economy in transition replaces third-country reference pricing – to greater competitiveness in the global market and less subject to anti-dumping cases.

P8. With greater transparency, China's imports will increase over time as it softens its anti-dumping measures against foreign competitors.

Safeguards

The WTO Agreement on Safeguards allows a member to take "safeguard" action to protect a specific domestic industry from an unforeseen increase of imports of any product which is likely to cause serious injury to the industry. The Agreement establishes a prohibition against "grey area" measures and in setting a "sunset clause" on all safeguard actions (World Trade Organization, 2002). "Grey area" measures were issued to bypass the safeguard clause wherein parties using separate bilateral negotiations would persuade the use of voluntary export restraints or other means of sharing markets. According to the "sunset clause", the duration of a safeguard measure should not exceed four years, although it can be extended up to a maximum of eight years.

For a period of 12 years following China's accession, WTO member countries will be provided with temporary relief if Chinese imports cause or threaten to cause market disruptions to their domestic producers. Duties and quantitative restrictions on specific imported Chinese products can be imposed or increased (World Trade Organization, 2001b). This product-specific safeguard mechanism is also provided to third countries in the event that Chinese imports are diverted from other member countries. Under WTO, any country can impose temporary import restrictions to allow a competing domestic industry time to adjust, but such limitations can only be imposed if the domestic industry demonstrates serious injury and the restrictions are applied to all countries. Therefore, while it is believed that China will replace several labor-intensive exports originating from developing Asian countries, the safeguard clause may restrict Chinese exporters in the initial stage until the sunset clause is lifted. However, it may be more difficult for developed countries to demonstrate serious injury as compared to other developing countries. Thus we posit the following proposition:

P9. China's export may be moderated by product-specific safeguard measures initiated by some WTO members in the short term. However, it may be more difficult for developed countries to demonstrate serious injury as compared to developing countries.

Intellectual property rights

The WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) recognizes that widely varying standards in the protection and enforcement of intellectual property rights (IPR) and the lack of a multinational framework of principles, rules, and disciplines dealing with trade in counterfeit goods have been a growing source of tension in international trade. The Agreement on TRIPS lays down the national treatment commitment and the most favored nation clause (World Trade Organization, 2001b). It covers copyrights, trademarks and service marks, industrial designs, patents, layout designs of integrated circuits, trade secrets, and anti-competitive practices in contractual licenses.

In traditional socialist economies, state ownership meant that all IPR belonged to the state. Despite economic reforms, respect for intellectual property has not become a social norm nor has the legal system been adequately developed to protect them (Yang, 1999). The reduction in tariff and non-tariff barriers has resulted in an increase in global outsourcing for counterfeit products, especially for small- and medium-sized enterprises. This has been further facilitated by a simplification of the manufacturing process, making the job of counterfeiters easier (Clark, 2000). Export rights for all firms have also resulted in greater export business, leading to diminished control and increased counterfeit products, at least in the short term.

China's frequent regulatory revisions and its commitment to WTO principles on TRIPS promises better protection in the future. In recent years, liberalization has encouraged multinationals with advanced technology to invest in China. An increasing number of firms have set up R&D centers in China, and in reverse some Chinese firms have established offices abroad to acquire cutting-edge technology (Child and Tse, 2001). With the implementation of TRIPS, China will witness an increase in R&D activity in home-based subsidiaries of multinational firms. Increasingly, in today's innovation-driven markets, subsidiary-based R&D activities aim to tap into local expertise for new sources of technology (Cantwell, 1995).

There will also be a growth in contractual arrangements such as technical licensing, franchising, and equity-based operations. For example, the use of technical licensing depends upon the contract enforceability of the laws relating to intellectual property (Hill *et al.*, 1990; Teece, 1981). In the future, it is expected that multinational firms can enter China through various entry modalities with greater confidence, especially with those modes with a high dissemination risk (Vanhonacker, 1997). For example, for the last several years, there has been a growth in wholly foreign-owned enterprises in China at the expense of equity joint ventures due to control issues and violations of IPR (Deng, 2001; Henley *et al.*, 1999).

Despite recent changes, one should not expect sudden improvement in IP protection in China primarily because Chinese IP laws are, by and large, already TRIPS-compliant. The main barrier to the effective implementation of TRIPS in China is not the lack of appropriate laws, but rather the weakness of the enforcement regime (Clark, 2000). However, it is expected that as China's economy develops and WTO pressure encourages China to enforce its IP laws, IP problems will gradually subside. Based on the preceding discussion, we propose:

P10. In the short term, due to the liberalization of import and export licensing and simplification in the manufacturing process, there may be an increase in the production and sale of counterfeit products.

P11. In the long term, as TRIPS policies are streamlined and enforced, counterfeit products will decline and consequently there will be an increase in subsidiary R&D activity, technical licensing and equity joint ventures as the risk of dissemination is reduced.

Trade-related investment measures

China has made a commitment to implement the WTO Trade-Related Investment Measures (TRIM) upon accession. The reason for this agreement is that certain investment measures can have trade-distorting effects. China has agreed to eliminate and cease to enforce any laws and regulations that require trade and foreign exchange balancing, use of local content and minimum export quantities as a condition of foreign investment (World Trade Organization, 2001b). In the past, firms with foreign investment were obliged or encouraged to purchase a certain proportion of their inputs from domestic sources. For example, the Sino-Foreign Joint Equity Ventures law requires a joint venture to give preference to domestic sources of supply when purchasing raw materials. Further, only foreign investments with technological sophistication or exceeding a certain scale were given substantial access to the domestic market. Under the terms of the WTO, China will refuse to enforce contracts imposing these requirements. These WTO provisions will benefit global marketeers as they remove performance requirements and investment barriers in China, stimulating FDI into China.

Under the terms of TRIM, China can only impose or enforce laws relating to the transfer of technology and know-how if they are in accordance with the TRIPS (World Trade Organization, 2001b). Hence, TRIM provides firms with some minimum standards of protection and enforcement of intellectual property in China. It is expected that with the implementation of TRIM, China will witness an increase in capital formation via inward FDI and technology transfer. There will also be an accompanying growth in outward FDI undertaken by domestic firms with a strategic asset-seeking motive in developed countries. Young *et al.* (1996) found that the government granting of export autonomy to Chinese firms facilitated the import of foreign technology, which then rapidly stimulated outward FDI for more advanced technology. Thus we posit the following:

P12. China's compliance with TRIM will mean growth in inward and outward FDI, export promotion and technology transfer that is in compliance with TRIPS.

Trade in services

The service sector has been one of the most heavily regulated sectors in China. Under the WTO General Agreement on Trade-in-Service (GATS), China has agreed to open the service sector to foreign service providers. Trade liberalization in the service sector includes legal services, accounting, management consulting, engineering, advertising, market research, medical services, etc. In some cases, majority foreign ownership is allowed within two to three years. The WTO agreement promises new opportunities for foreign financial services, telecommunications and Internet service providers. Also, national treatment status is granted to foreign service firms. Licensing procedures and conditions will not be used as barriers to restrict market access in the service sector. Foreign competition in services will not only force Chinese firms continuously to cut costs and enhance technological development, but also bring higher-quality services at lower prices (Chen, 2002).

Prior to WTO accession, China was reluctant to make substantial offers to liberalize its services market. US and European trade negotiators acknowledge that China's services "market in transition" is not directly comparable to the market of an OECD country, and that some concessions to its special situation need to be made. However, they fear that unduly favorable treatment of China might undercut the more global process of liberalizing trade in services. One approach to accommodating the special characteristics of China's services market while avoiding backsliding in the wider process of global services market liberalization would be to use transition arrangements such as those employed for some NAFTA services sectors. Recalling that the removal of barriers to trade in services has been slow, as between the US and Europe, there should be some room for allowing China's services enterprises to adapt to market conditions before fully facing competition from foreign service providers. Thus we propose:

P13. China's compliance with GATS will mean growth in inward FDI and contractual agreements in the service sector, resulting in increased competition for domestic service firms. However, the process may be gradual given the "market-in-transition" status of China, leaving domestic firms time to adapt to market competition.

E-commerce

Like many countries, China has witnessed phenomenal growth in the use of the Internet in recent years. Although China's Internet penetration rate remains relatively small on a per capita basis, the number of Internet users in China has been growing very rapidly during the last few years (Lo and Everett, 2001). The Chinese Government is actively promoting the development of e-commerce as an integral part of economic development in China.

Despite the Internet's growth, the Chinese Government is also attempting to devise laws and regulations to oversee its burgeoning development (Lapres, 2000). The aim is to restrict access to politically sensitive information and safeguard national security (Lo and Everett, 2001). Through a four-tier system, access to the Internet is strictly controlled (Kennedy, 2000). In China, foreign investment in Internet-related business was highly restricted prior to accession to the WTO. For example, foreign investment was not permitted in Internet service provision. There were also severe restrictions on foreign investment in Internet content provision.

Under the terms of the WTO, China has agreed to liberalize rules governing foreign investment in telecommunications, the Internet and e-commerce. From the date of accession, foreign-invested joint ventures with up to 30 percent foreign ownership are permitted to provide services in and between Beijing, Shanghai and Guangzhou (World Trade Organization, 2001b). Within one year of accession, 49 percent of foreign ownership will be permitted and 14 more cities will be opened to foreign-invested companies (World Trade Organization, 2001b). Within two years of accession, up to 50 percent foreign ownership will be permitted and geographic restrictions will be lifted.

While the future of e-commerce appears to be bright in China, it must be pointed out that the suspicious governmental control aimed at protecting political and security concerns may have a dampening effect in the short term. Furthermore, the growth in e-commerce in China is dependent upon growth in primary services-based infrastructure such as transportation and credit facilities (Haley, 2002). Marketers can surmount these problems if they carefully adapt to the infrastructural and political situations in China. Despite these problems, the Internet offers great potential for promotional activities and advertising as it allows consumers to search and process information more efficiently and at a lower cost (Mahadevan, 2000).

P14. With the phased-in liberalization of the foreign ownership of e-commerce, there will be a gradual growth in foreign-based service and content providers in different stages of the value chain.

P15. While weak services infrastructure and strong governmental control may slow down the growth of e-commerce in China, at least in the short term, the Internet can be used effectively as a promotional medium.

Global marketing implications of the WTO on China

China's membership of the WTO is of great significance, not only to the world economy but also to international business. Following China's entry to the WTO, foreign companies will benefit substantially from trade and investment liberalization in China. Thus, the emergence of a huge, growing Chinese market is attracting the attention of global marketers. In this section we discuss the global marketing implications of China's entry to the WTO, organized around marketing-mix strategies, and offer corresponding propositions. A summary of the global marketing implications is presented in Table I.

Marketing-mix implications

Global product strategy. Different product and technical standards can hinder the mass production of a standardized product. The substantial transformation rule of origin of the WTO should provide guidance to global marketers attempting to determine how to maximize the benefits of country of origin for the product. Much research has shown that country of origin affects consumers' perceptions of product quality and brand image as well as purchase decisions (Hong and Wyer, 1989; Baughn and Yaprak, 1993; Peterson and Jolibert, 1995).

Today, components for global products are being drawn from multiple countries, making it difficult to identify any specific country of origin. In such cases, marketers need a clear understanding of the rules of origin in the development of a global marketing strategy (Clarke *et al.*, 2000). Marketers in China should give strategic consideration to imported products-in-progress by evaluating how country-of-origin markings are prescribed by Chinese laws, customs considerations, and preferential agreements (if any) with other countries. A good understanding of the "transformation strategies" will help marketers/importers to optimize global outsourcing.

Rules of origin also have a bearing on the number and type of suppliers from multiple countries that a firm needs to enter into a long-term relationship. Increased global competition has significantly influenced the procurement paradigm of firms. The current trend is to reduce the number of suppliers in global outsourcing and enter into strategic alliances and long-term relational exchange with a few suppliers who have differentiated their core competencies (Gadde and Snehota, 2000; Moller and Halinen, 1999). Firms can also benefit through supplier-led innovation and cost reduction. By reducing the number of suppliers in the value chain and entering into long-term relationships, marketers in China can also alleviate potential problems related to rules of origin. Marketers in China will need to redistribute global outsourcing of the value chain by focusing on that part of the value chain where the firm has a distinctive cost advantage or value advantage (Anderson, 1995). Firms that do not have either a cost or value advantage should outsource those activities to firms that do have such advantages.

P16. Marketers in China should give strategic consideration to imported products-in-progress and apply the substantial transformation rule to optimize global outsourcing with a view to maximizing positive country-of-origin effect.

P17. Marketers in China should examine the benefits of long-term relationships with a few suppliers and redistribute global outsourcing of the value chain on the basis of its own competitive advantage.

For global products, varying technical standards impede the progress toward worldwide standardization. It is recommended for Chinese manufacturers and marketers to introduce widely the ISO 9000 standards for implementing the WTO's Technical Barriers to Trade Agreement (He *et al.*, 2001). ISO 9000 is the most influential standard of its kind, and has gained widespread acceptance. Firms register with ISO 9000 primarily to increase market share and profitability by meeting customer requirements and improving product and process design, product quality, public image and supplier relations (Buttle, 1997; Ebrahimpour *et al.*, 1997). Such business and marketing advantages are especially important for firms in China with an international sales strategy (Ferguson, 1996).

P18. Marketers in China should encourage the widespread introduction of the ISO 9000 standards to meet technical barriers and to enhance global market share and profitability.

Global pricing strategy. International pricing strategy is a key element of the overall international marketing mix because it affects the revenues earned by international firms operating in China. More importantly, the pricing strategy can be used as a strategic weapon by allowing multinational firms to shape the competitive environment in China after its accession to the WTO. Following China's entry to the WTO, China agreed to allow prices for traded goods and services in every sector to be determined by market forces, and multi-tier pricing practices for such goods and services will be eliminated (World Trade Organization, 2001b). Price controls will not be used to protect domestic industries or service providers, with the exception of goods and services that have a direct bearing on the national economy and on people's basic needs (World Trade Organization, 2001b).

China is obligated to use the pricing model based on transaction value, which is consistent with that of the "arm's length" standard. This requires that associated parties should deal with each other as if they were parties operating independently, and that transactions are priced at a normal and reasonable value (Fu *et al.*, 2001). Marketers should use the comparable uncontrolled price measure of the transfer pricing model, which is based on prices charged on identical or similar transactions between independent enterprises. As China expands its trade and investment into a global network as a result of WTO, Chinese marketers should be aware that transfer-pricing audits will intensify, and therefore they would be well advised to be proactively prepared (Bateman *et al.*, 1997).

While the WTO requires evidence of material injury to domestic industry, exporters from China must realize that penetration pricing may trigger anti-dumping actions. To obviate the potential for anti-dumping actions, marketers may move away from low-value to high-value products via product differentiation (Kostecki, 1991). Most Japanese car makers have used the upward stretching of product lines to cater to a higher price tier segment. Marketers can also use service enhancement to move away from price competition and anti-dumping action. Hence, we posit the following propositions:

P19. Marketers in China are obligated to use the pricing model of customs valuation based on transaction value, and not the minimum or reference price. This would mean that multinational marketers would be obliged to use transfer pricing based on the comparable uncontrolled price, which assumes independence between parties.

P20. Marketers in China must realize that penetration pricing in foreign markets may trigger anti-dumping actions, and should therefore focus on product differentiation and service enhancement.

Global distribution strategy. A key component of an international firm's marketing strategy is its distribution strategy, i.e. the channel(s) the firm will use to reach potential customers (Anderson and Coughlan, 1987). In the case of China, the retail system is quite fragmented, creating interesting challenges for international marketers. China has long channels of distribution, sometimes with multiple layers (Luk, 1998). After China's entry to the WTO, foreign firms are allowed to distribute their own products in China, and to own and manage distribution networks, wholesaling outlets, or warehouses (World Trade Organization, 2001b). As a result, they can eliminate Chinese state-owned middle and distribution services. Foreign firms are able to perform their own independent marketing and after-sales service in China. In addition, the gradual growth in e-commerce will reduce channel layers both in business-to-business and business-to-consumer marketing.

Easing up the distribution system means that foreign retailers can demand high-quality services, favorable payment terms, timely delivery and low wholesale prices owing to the high volume of transactions. China has recently witnessed a development of its retail industry, as exemplified by big-box retail formats such as Wal-Mart (US), Metro AG (Germany), Carrefour SA (France) and China's own Shanghai Hualian and Lianhua supermarkets. One immediate obvious change would be savings in transaction expenses, since established firms can now bypass third parties such as state-owned trading firms. Thus, we offer the following propositions:

P21. Liberalization of the distribution and retail sectors will increase competition, necessitating the need for domestic firms to improve service quality and technological enhancement.

P22. Marketers in China should shorten distribution channels by establishing their own independent distribution networks, both traditional and Internet-based.

Global promotion strategy. For global marketers, another critical element is promoting products to potential buyers and distributors in China. In China, there are a number of channels for promotion: direct sales, sales promotion, direct marketing, and advertising. Some global firms have chosen to use direct selling, some have chosen mass advertising, and others have used several channels simultaneously (Yin, 1999; Zhou and Belk, 1993).

As a result of the WTO framework, foreign investors are now permitted to invest in China's advertising industry via equity joint ventures (World Trade Organization, 2001b). Majority foreign ownership will be allowed two years after accession and wholly foreign-owned companies will be allowed four years after accession. Advertising firms are given exclusive rights to deal and work as advertising agents for their clients. This will result in a rapid growth of global advertising agencies. With the emergence of global brands and scarcity of creative talents, there is a trend toward the globalization of advertising firms. Research indicates that global agencies in China are preferred to Chinese or Hong Kong agencies (Yin, 1999). Local Chinese agencies, however, can compete through consolidation and exploiting their intimate knowledge of Chinese culture.

Global advertising firms entering or expanding operations in China as a result of GATS should be aware of the cultural differences in the organizational buying process in China. For example, because China's economy is in transition from the previous command-based hierarchical power structure, Chinese client-firms will tend to retain significant power over the campaign process even when dealing with renowned global advertising agencies (Prendergast *et al.*, 2001). Thus, Chinese top managers and marketing personnel are the most important decision makers in campaign planning, as well as in advertising agency selection.

In the area of personal selling, the role of salespeople is more to build and maintain long-term customer relationships by creating value than just to solve customer problems or make a sale. Firms in China using relationship strategy should effectively deploy sales teams and develop their leadership and conflict management skills (Weitz *et al.*, 1998). It is important for multinational firms to organize sales teams with highly motivated Chinese nationals centered around customer groups or key accounts rather than by product groups (Weitz and Bradford, 1999). Based on the above discussions, we develop the following propositions:

P23. China's conformance to GATS will result in a growth in global advertising firms in China. Global advertising agencies must be aware of the differences in the agency-client relationship in decision-making processes in China.

P24. Marketers in China should organize sales teams with highly motivated Chinese nationals centered around customer groups or key accounts rather than product groups.

Conclusion

China's entry to the WTO is of great significance not only to the Chinese economy, but also to the world economy. WTO membership offers China a more stable international trading environment because it ensures Chinese products greater access to the world market. At the same time, other WTO member countries are guaranteed increased access to the huge Chinese market. As a new member of the WTO, China has become even more attractive to international investors as its investment barriers are removed. While FDI provides a steady flow of additional capital to China, it also brings in valuable market information, technological know-how, management techniques, and worldwide production and distribution networks.

WTO membership also offers China the conditions and environment to continue its economic reforms and the restructuring of industry. Because of trade and investment liberalization under the WTO, there will be greater competition between Chinese and foreign firms, both inside and outside China. There will be pressure on China to undertake further regulatory and institutional reforms to supplement economic reforms in order to meet its WTO obligations. In the long term, WTO membership will improve efficiency in China's resource allocation, thereby enhancing the competitiveness of its economy. It is hoped that the accession to the WTO will maintain the momentum of reform and reduce the risk of policy reversal in the face of volatility and corruption (Yang, 1999).

Given the growing importance of China in the world economy, there is a need for a better understanding in China of issues related to global marketing after its accession to the WTO. This paper is an attempt to fill this gap in the literature. Specifically, this paper examines the global-marketing issues and implications of China's entry into the WTO from a marketing perspective. It is hoped that our paper will stimulate discussion and debate and generate further research in this important area.

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