Rise of a Trading Power, in 10 Years

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HONG KONG -- As China heads into a weekend of speeches celebrating its 10 years as an official member of the global trade community, the rest of the world may want to contemplate the exported $49 microwave oven and the imported $85,000 Jeep Grand Cherokee.

Sunday is the 10th anniversary of China's joining the World Trade Organization -- a membership that helped turn China into the world's biggest economy after the United States. Companies and consumers worldwide have benefited from China's emergence as a top trading partner. And yet, because of special breaks and loopholes for China when it joined the W.T.O., it still shields its domestic markets from foreign competition much more than any other big nation.

Consider that $49 microwave oven and $85,000 Jeep.

Microwave oven prices have plunged in the West over the past decade, largely because China has combined inexpensive labor, excellent infrastructure and heavy factory investment to produce the ovens and a wide range of other consumer goods for export, making creature comforts more affordable to customers around the world.

Further, W.T.O. rules against protectionism have made it difficult for countries in the West to limit China's sixfold surge in exports during those 10 years, even as the Chinese flood of products has forced factory closings and layoffs elsewhere.

But price tags on imported cars at dealerships in Beijing, Shanghai and other Chinese cities signal how China has continued to protect its home market under the special terms of the W.T.O. agreement it negotiated before joining the trade group.

In the United States, prices for a Detroit-made Jeep Grand Cherokee start at $27,490. But in China, after tariffs and other protective fees, it sells for $85,000 or more. (It's no surprise that Chrysler has sold fewer than 2,500 of them so far this year in China.)

Foreign trading partners often chafe at the way China uses the W.T.O. rules to its advantage.

The Chinese economy's "spectacular rise would not have been possible without the open global trading system that China was able to benefit from during the past 10 years," said Karel de Gucht, the European Union's trade commissioner.

"At the same time," he said, "China is having to increasingly recognize and respect not only the legal responsibilities it now faces as a member of a global rules-based body, but also the W.T.O. 'spirit' of promoting open markets and nondiscriminatory principles."

Chinese officials have been effusive in the run-up to their W.T.O. anniversary. "We believe that our 10-year arrangement has been successful -- the results of the past 10 years are welcome and a valuable inspiration," Yu Jianhua, China's assistant minister of commerce, said at a news conference last month in Beijing.

The roots of China's economic model trace to the singular terms under which the nation joined the World Trade Organization, which now has 153 members.

Based in Geneva, the group was established in 1995 as the successor to an international framework called the General Agreement on Tariffs and Trade -- GATT, as it was known -- that had been mapped out in the early years after World War II.

After negotiating for 15 years to be admitted to GATT and then to the W.T.O., China was finally let in after agreeing to accept the W.T.O.'s broad free trade rules. But as all new members do, Beijing also had to negotiate a lengthy document, known as an accession agreement. It spelled out thousands of details tailored to the specifics of the economy of China, which then was still very much a developing country.

The agreement required China to lower its tariffs to levels below those of many other developing countries. But compared with most industrialized countries, China was allowed to impose considerably higher tariffs -- tariffs China has retained even as its economy has subsequently grown to No. 2 in the world.

The clearest example of W.T.O. ascendance China-style may be in automobiles. Even though China's auto manufacturing industry and car market are now both the world's largest, China continues to shelter them behind the highest trade barriers of any large industrial economy.

It retains a prohibitive tariff of 25 percent on imported cars, for example, which helps explain why imports represent only 4 percent of the light vehicles sold in China.

Japan, by comparison, no longer has any tariffs on imported cars, while South Korea has an 8 percent tariff and the European Union a 10 percent tariff. The United States, meantime, has a tariff of only 2.5 percent for imported cars, minivans and sport utility vehicles.

But the 25 percent tariff is only one reason a Grand Cherokee costs three times as much in Chongqing as in Chicago. In the name of energy conservation, China also assesses a sales tax of up to 40 percent of the vehicle's price based on its engine size. Small, fuel-sipping Chinese cars pay the lowest rate, as little as 1 percent, while gas-guzzlers from the United States and Europe pay the highest rate.

China also collects a 17 percent value-added tax on almost everything sold in the country, whether imported or domestically produced. But like many European nations, China uses a W.T.O. provision that allows the tax to be fully refunded to China's export producers, who often pass along the saving to foreign buyers.

What's more, China limits foreign manufacturers to no more than 50 percent ownership of car assembly plants in China. That special rule, which China managed to negotiate for its W.T.O. accession agreement when its auto industry seemed tiny and vulnerable, has forced multinationals to set up numerous joint ventures in China and to transfer a wide range of technology to those Chinese partners.

China's W.T.O. agreement did open many service sectors of the Chinese economy, like transportation, banking and retailing, to foreign competition.

FedEx, for example, has expanded rapidly in China and now has 9,000 employees in the country. The company also relies heavily on American-made Boeing 777-Fs, with mostly American pilots, to ferry an ever-rising tide of Chinese goods to the FedEx hub in Memphis.

And Wal-Mart has been able to open 353 retail stores in China, despite the hostility of many small, local retailers.

China's W.T.O. agreement had some big omissions, including the thorny question of whether to let foreign companies bid on Chinese government projects -- an issue that remains unresolved.

China got many of its breaks because the W.T.O. and its members, including the United States, were eager to accept it into the international trade group to encourage Beijing's embrace of capitalism and to make it a more fully vested participant in the global community.

But trade officials say that they never expected all the terms of China's accession agreement to last as long as they have.

Instead, China and other trading nations had expected to reduce trade barriers further in the Doha Round of global trade talks. But the talks dragged on and then effectively collapsed in 2008 -- despite periodic efforts to revive it, including a meeting of ministers next week in Geneva.

While China is acutely aware of other countries' concerns about its tariffs, it is leery of lowering them unilaterally without concessions from other countries, said He Weiwen, a council member of the China Society for W.T.O. Studies in Beijing.

For the West, the open question is whether China's high tariffs and other market protections will be allowed to remain in place indefinitely. Just as worrisome: a few provisions in the agreement that were meant to blunt the competitive impact of Chinese exports on Western industries are starting to expire.

The most notable of these is China's current designation under its W.T.O. agreement as a "nonmarket economy." The label makes it fairly easy for overseas industries to accuse Chinese companies of dumping goods into their markets at prices below cost, and to seek steep tariffs on their shipments.

That is just the sort of accusation, in fact, that American solar panel manufacturers have leveled at China in a trade case pending at the Commerce Department in Washington -- a case the American industry is widely expected to win.

But under the W.T.O. agreement, China will automatically be relabeled a market economy in 2016. That status will make it harder for companies in other countries to win antidumping decisions against China -- and will probably clear the way for Chinese businesses to further increase their global market share.

Ideally, that could mean a lot more products like $49 microwaves on Western shelves -- even if means a Grand Cherokee from Detroit may never be affordable in China.

PHOTOS: A Jeep Wrangler S.U.V. in Beijing, where tariffs, taxes and various other markups keep it and other imported vehicles priced well above domestic autos. (PHOTOGRAPH BY KEITH

BEDFORD/BLOOMBERG NEWS) (B1); The Import and Export Fair in Guangzhou, seen in October, is the country's largest trade show. (PHOTOGRAPH BY BOBBY YIP/REUTERS); In 2001, Shi Guangsheng, then China's foreign trade minister, signed documents admitting China into the W.T.O. in Qatar. (PHOTOGRAPH BY RABIH MOGHRABI/AGENCE FRANCE-PRESSE) (B4)

CHART: A Trade Edge: Since China joined the World Trade Organization in 2001, the country has had a large trade surplus of goods with the rest of the world, despite rising prices for imported commodities like oil. In the service sector, which is much smaller, China has run a growing trade deficit. (Sources: China General Administration of Customs, China State Administration of Foreign Exchange, via C.E.I.C. data) (B4)