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TRADE POLICY REVIEW

Report by the Secretariat

CHINA

Revision

This report, prepared for the fourth Trade Policy Review of China, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from China on its trade policies and practices.

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Document WT/TPR/G/264 contains the policy statement submitted by China.

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SUMMARY

1. China enjoyed strong economic growth in 2010 and 2011, boosted by a ¥4 trillion fiscal stimulus package implemented in 2008-10. Growth was also helped by the recovery of world trade, but China's exports recovered less rapidly than its imports and its merchandise trade surplus continued to fall, reaching 4.3% of GDP in 2010 from levels of 9% and above before 2008. Nominal GDP per capita increased in 2011 to the equivalent of US$5,400.

2. The stimulus provided to domestic consumption and investment was accompanied by rising prices in 2010, and in 2011 inflation was above 5%, a level that had prevailed before 2009. The authorities were concerned and reacted by tightening China's fiscal and monetary policies. At the recent National People's Congress, the GDP growth target was reduced to 7.5%, reflecting also the projected slowdown in world trade growth for 2012-13.

3. Since July 2005 (when China's exchange rate reform started), the renminbi has appreciated in nominal terms by about 31% against the U.S. dollar. The rate of appreciation has been somewhat slower in the last few years than at the beginning of the reform programme. According to the Government Report submitted to the National People's Congress in March 2012, China intends to improve the exchange rate determination mechanism for the renminbi and maintain the stability of the exchange rate around its equilibrium level, push forward the convertibility of the renminbi under the capital account gradually, and enlarge the scope of renminbi usage in cross-border transactions.

4. Aside from macroeconomic developments in the past three years, resulting from the effects of, or reactions by the authorities to, the global financial and economic crisis, China continues to have a large and persistent surplus of national savings over domestic investment and the external counterpart of a current account surplus in its balance of payments. Addressing this structural imbalance in its economy, and making growth less dependent on overseas demand for China's manufactured exports, remain important policy challenges for the authorities.

5. China has become the world's second largest exporter and remains the third largest importer of goods and services (excluding intra-EU trade). The direction of its trade has not changed since 2009. Its main trading partners for exports and imports are the EU, the United States, Japan, and the ASEAN countries, along with Hong Kong Special Administrative Region (SAR) for exports and the Republic of Korea and Chinese Taipei for imports. China's merchandise trade surplus has fallen significantly as a share of GDP. China has large bilateral trade deficits with Chinese Taipei, Korea, and Japan, from which it imports components for its export processing activities, and large bilateral trade surpluses with the United States and the EU, to which it exports final products. When measured net of imported components used in China's exports, those bilateral surpluses are significantly smaller.

6. China continues to expand its bilateral and regional free-trade agreements (FTAs). Since 2009, new FTAs with Costa Rica and Chinese Taipei entered into force. Supplementary agreements were signed with ASEAN countries, Hong Kong SAR and Macao SAR. The authorities state that FTAs are a complement to the multilateral trading system and are used to facilitate import growth.

7. There were few changes to China's policies on imports and on inward foreign investment in the period under review. Applied MFN tariffs remain close to China's bound rates, and the simple average applied MFN tariff is unchanged, at 9.5%. China uses various non-tariff border measures, such as import and export licensing and state trading to "guide" the allocation of resources. Notice-and-comment procedures are becoming more prevalent in the process of drafting trade laws,

regulations, and departmental rules, but it seems that not all trade-related information is made available to the public.

8. Subsidies and other government assistance are important features of China's trade policy and industrial policy making. China submitted a new WTO notification of its subsidies in 2011, listing programmes providing government assistance at the central government level between 2005 and 2008. However, in many cases there are no figures on the magnitude of support provided, and no information is available on subsidies and other government assistance provided at the provincial level, which are believed to be considerable.

9. China's institutional and procedural framework on anti-dumping has not changed since 2009. Three challenges to Chinese anti-dumping measures were brought to the WTO Dispute Settlement Mechanism in the period under review. In the WTO Committees on TBT and on SPS measures, some Members expressed concerns about TBT measures proposed and/or imposed by China on products ranging from cotton and textiles to lighting and light signalling devices for motorbikes, and about SPS measures proposed and/or imposed, including hygiene standards for distilled spirits, import restrictions on products, and quarantine testing, as well as China's notification practices.

10. The value of agricultural production in China has been increasing strongly over the past few years due to a combination of increased production and higher prices. However, China remains a net importer of food and agricultural products (WTO definition), with imports of US$67 billion and exports of US$36 billion in 2010. Agriculture policies have been changing, as well as support for infrastructure and direct payments decoupled from prices, and production along with other programmes notified to the WTO as being in the Green Box have gone up. In addition, market price support programmes, input subsidies, and other more trade- and production-distorting forms of support have increased. As China has the largest agriculture sector of any country in the world and because it is a major importer and exporter, its policies may affect other countries.

11. China is in the process of becoming a party to the Government Procurement Agreement. It submitted a revised offer in November 2011. The value of procurement by government departments, institutions, and public organizations using fiscal funds was ¥842 billion in 2010. It would appear that local governments account for a major part of government procurement in China, but no data are available on their procurement activities. The authorities maintain that there is no longer any condition attached to government procurement regarding "indigenous innovation".

12. China's export regime is complex and measures continue to be used to manage certain exports. Export duties on 17 tariff lines have been eliminated and interim export duty rates have been reduced on 21 tariff lines since 1 January 2010. At the same time, China has introduced requirements for enterprises to declare the weight percentage of rare-earth components contained in certain exports, increased the total number of tariff lines subject to export quotas, and adopted seasonal special export taxes. The authorities consider that these measures will help conserve natural resources and protect the environment

13. More broadly, China remains concerned about energy and resources conservation. A new tax rate of 5% of the sale value (previously a specific tax) is applied to crude oil and natural gas exploitation. Preferential taxes are accorded to energy management projects for eligible energy services companies.

14. The number of state-owned enterprises (SOEs) fell during the period under review, but SOEs remain dominant in certain sectors and subsectors that are "vital to national economy". According to the authorities, the reform of non-tradeable shares of SOEs was completed by May 2011. In

May 2010, China's State Council issued Certain Opinions on Encouraging and Guiding the Sound Development of Private Investment towards sectors that have been dominated by SOEs; the policies set out in the Opinions are not applied to foreign investment.

15. China revised its *Catalogue for the Guidance of Foreign Investment Industries*, which entered into force on 30 January 2012. More services sectors were added as "encouraged", while some manufacturing sectors with excess capacity were removed. The foreign equity ceilings for 11 subsectors were removed in the latest version of the Catalogue. Regarding administrative procedures for inward and outward foreign direct investment, the provincial development and reform commissions and commercial departments have been delegated to verify and approve investment projects not exceeding US$300 million (or not above ¥300 million if investment is made with offshore renminbi).

16. Foreign investors (enterprises and individuals) have been subject to the same taxes and charges as domestic investors since 1 December 2010, when exemptions accorded to foreign investors from payment of city maintenance and construction tax and educational surcharges were abolished.

17. In addition to going through anti-trust reviews, foreigners investing through mergers and acquisitions of Chinese enterprises may be required to obtain clearance from national security reviews. The National Security Review Mechanism was entered into force on 5 March 2011.

18. A number of laws, regulations, and departmental rules on IPR protection have been promulgated or amended since 2009. These include the Copyright Law, the Implementation Regulation of the Patent Law, and the Regulation on Custom Protection of Intellectual Property. China intends to promote its campaign for tackling IPR infringement. In the latest version of the *Catalogue of Guidance for Foreign Investment Industries*, services for IPR protection is listed as "encouraged".

19. Seven industries have been identified as "strategic emerging industries" in China and receive tax preferences. Foreign-invested enterprises are encouraged to apply for the status of authentic high-tech enterprises in order to receive tax preferences. According to the authorities, no technology-transfer requirements are imposed on foreign investment projects, including new-energy car manufacturing.

20. The financial services sector is being opened up gradually. Foreign investors are allowed to hold up to 100% ownership of non-bank financial institutions (e.g. personal consumption finance); subsidiaries of foreign banks are allowed to underwrite financial bonds in the inter-bank bond market; clearing banks for the renminbi outside the Chinese territory are allowed to invest in the inter-bank bond market with the renminbi from their clearing operations.

21. Environmental services have grown rapidly in China since 2005. Overall policy is still being designed. The sector is "encouraged", in practice, with the aim of diversifying operators and attracting state-of-the-art technology. There is no ownership limit on foreign investments to engage in the operation of professional categories of environmental pollution control facilities.

22. Third-party logistics is in its early stage in China. Most enterprises provide a single logistic service, and foreign-invested operators prevail in the market. Modern logistics is listed as "encouraged", and foreign investors can hold up to 100% ownership. Currently, there is no single authority to regulate the sector.

23. Online retail distribution services grew by 44% in 2010. Foreign presence of online retail continues to be "restricted" in the 2011 *Catalogue for the Guidance of Foreign Investment Industries*. Foreign-invested retailers prevail in the large supermarket and high-end department stores subsector.

24. Trade aspects of the regulatory framework for telecommunication, transport, and tourism remain largely unchanged since 2009. In line with the amendment of the Postal Law in 2009, domestic express delivery services are listed as "prohibited" in the Catalogue.