

# Impacts & Actions of China Since Joining WTO

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**Mr. Hans Meiring**, Chairman of ICF Standing Commission

Our first and keynote speaker is Professor Xue Rong Jiu, professor at the University of International Business & Economics in Beijing. He is also the first Deputy President of China WTO Research Association. We have learned that Professor Xue has worked for many years on international trade relations in China and he was a major catalyst in getting China to WTO.

# Outline

- Economic Conditions Since China's Accession to the World Trade Organization
- Reform Consideration and Policy Tendency of Chinese Government

Chairman, ladies and gentlemen,

I am pleased to come here to participate in this congress. I feel honored to be the first speaker.

My presentation consists of two parts, as you can see from the outline.

# Economic Conditions Since China's Accession to the World Trade Organization

- Trade Balance
- Foreign Investment
- Domestic Economy

My first part deals with the economic conditions in China since the accession to the WTO. I would like to consider three points.

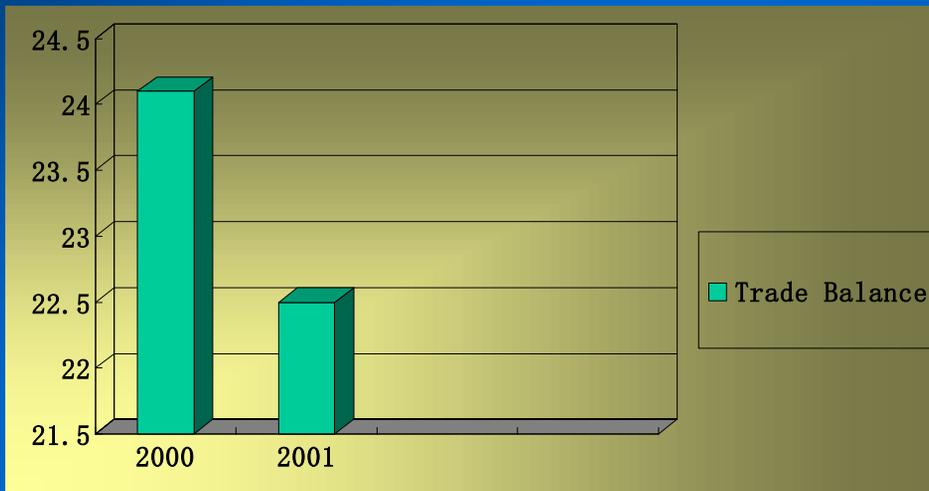
First point is on trade balance.

The International Monetary Fund (IMF) forecasts that the growth rate of the global economy will dip under 2.5% during 2002.

Many Asian countries, including Japan and much of Southeast Asia, are either in recession or in deep decline in economic growth rates for this year.

# Trade Balance

(US\$,billion)



But China, with its growth in exports outpacing that in imports, is likely to experience recovery in its global trade balance.

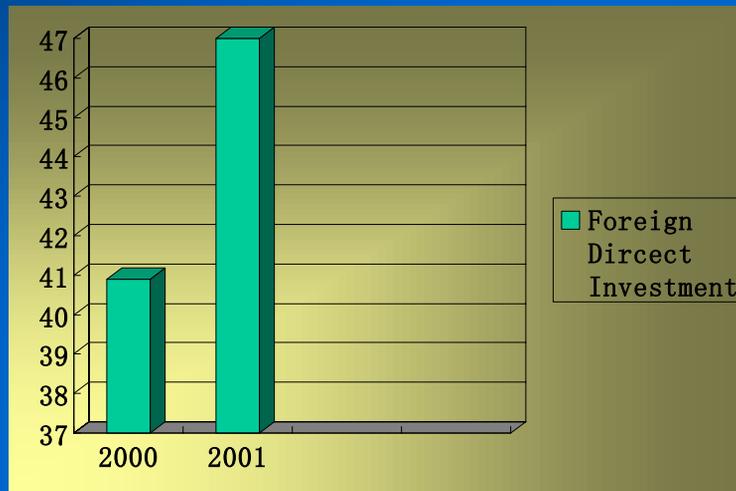
According to the data of import and export from January to September this year, the trade balance in 2002 will reach at least about US \$23.6 billion.

Despite the fluctuating balance of trade, China's current account balance will remain positive this year.

Foreign exchange reserves, which reached US \$220 billion at the end of 2001, will continue to accumulate and will match or outpace the growth of foreign debt, leaving China with a very strong balance of payments as it enters the WTO.

# Foreign Direct Investment

(US\$,billion)



My second point is on the outlook for foreign investment in 2002.

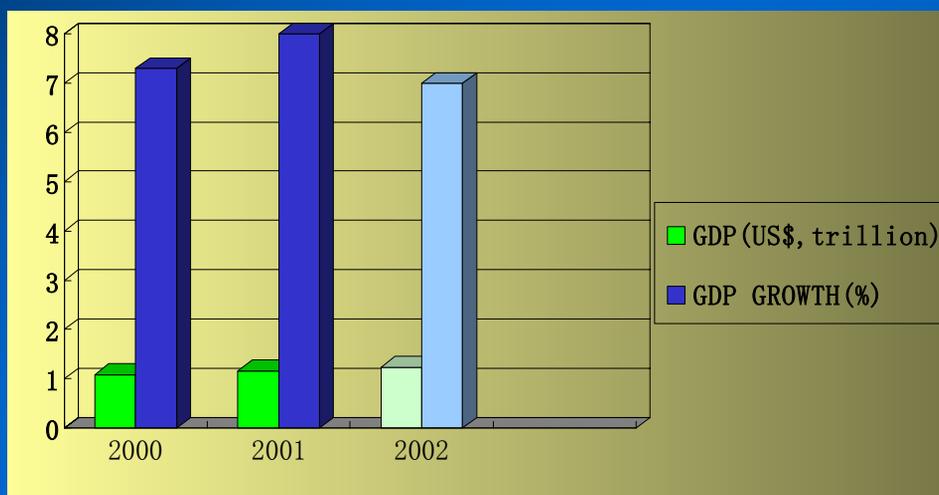
There is little question that China will remain the destination of choice for foreign investment in Asia. However, many foreign companies are tightening their capital budgets under the twin pressures of economic slowdown and decline in capital markets.

Despite the psychological impact of China's accession to the WTO, there may be a modest decline in newly committed foreign investment in the first half of this year compared to the same period last year.

Looking at the growth rate of foreign investments from January to September, China expects to receive US \$54 billion in utilized foreign direct investment in 2002.

Furthermore, It is more likely that companies with multiple facilities or which have already committed capital will sustain their investment programs, than that companies will starting up local operations in China for the first time. Reinvestment and investment in existing projects are more likely to grow than for new projects to be initiated.

# GDP Growth



My third point is on the domestic economy.

According to preliminary government statistics, China's GDP grew 7.3% in the last year to US \$1.16 trillion, making China the sixth largest economy in the world.

In spite of the global economic slowdown and the recessions in North America and Asia, China has a strong motor for economic growth. Beijing will not find it difficult to sustain official growth rates of over 7.8% in 2002.

Many foreign and Chinese economists discount official economic growth statistics by one or two percentage points to reflect systematic over-reporting of growth in the economic data collection system. However, the absolute size of the Chinese economy may be understated in official statistics because of barter elements in the economy. Regardless of the precision of such measurements, it is clear that the Chinese economy is among the largest and fastest growing in the world.

China is seeking to offer constraints on its external economy through massive public capital spending on infrastructure, by continuing to support the troubled state sector with bank loans and various measures designed to stimulate consumer spending.

# Reform Consideration and Policy Tendency of Chinese Government

- Consideration of implementation of the WTO protocol
- Legal and regulation implementation
- Organization reform
- The tendency of industry policy of Chinese
- Foreign direct investment policy

Now, I would like to move to the second part covering the reform thinking and the policy tendency of the Chinese government. I will be making five points, as you can see here.

First, I will talk about implementation of the WTO protocol.

The WTO protocol includes a large number of specific market access commitments. WTO accession is a new commitment by China to open its domestic market.

China's senior government and party leaders have repeatedly and publicly expressed firm support for full implementation of all WTO commitments. They know and understand that WTO compliance will reinforce domestic economic reforms and development programs.

# Reform Consideration and Policy Tendency of Chinese Government

- Legal and regulation implementation

The second point I wish to consider is legal and regulatory implementation.

The implementation of WTO commitments presents major short term challenges. The Legislative Affairs Office of the State Council has identified at least 177 national laws and regulations, and more than 2500 ministry regulations that impact foreign investment and trade, that are related to provisions of the WTO. More than 50 of these national laws and regulations, 40 State Council circulars and more than 1000 ministry-level regulations are being amended or abolished to conform to specific WTO provisions.

Further steps are as follows;

- Establish a consolidated medium to publish draft and final laws and regulations , and invite comments by interested parties.
- Codify laws and regulations in fully indexed publications.
- Publish administrative and judicial guidance documents and decisions
- Ensure that China's judiciary is completely independent from political entanglement.

# Reform Consideration and Policy Tendency of Chinese Government

- Organization reform

The next point is on the organizational reforms.

Structural changes in the organization of key ministries, managing foreign commerce, are also underway. The State Council has set up a WTO Leader Group under a state councilor to manage and oversee the implementation process nationwide. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) has established a new WTO department with six functional divisions to handle all domestic and international affairs related to WTO and to monitor its implementation. MOFTEC has also established the Fair Trade Bureau on Imports and Exports to monitor trade related issues. Several other commissions and ministries have also established new internal agencies to monitor WTO implementation in their sectors.

Several foreign governments, non-governmental organizations, regional organizations, such as the European Union, and multilateral organizations, such as the World Bank, are providing training and other assistance to China to support WTO implementation.

# Reform Consideration and Policy Tendency of Chinese Government

- The tendency of industry policy of China
  - Service industry policy
  - Manufacture industry policy

Now, I move to the industry policy of China. First, the service industry:

China's service trade will face unprecedented challenges after its accession to WTO. Now, the tasks in opening the service market are to rationalize mechanism of enterprises, to optimize the competitive environment and to strengthen the competitiveness. How do we meet this challenge?

- Establish optimized export structures
- Establish a group of large conglomerates in the main export services
- Selectively expand the opened service sectors, step by step.
- Strengthen the consciousness of service export, strengthen the relevant export publicity and research.
- Emphasize the market-oriented consciousness of service marketing.

Second, the manufacturing industry:

The State Development and Planning Commission (SDPC) and State Economic and Trade Commission (SETC) formulate and implement China's industrial policies. There are five types of industrial policies:

- Supporting industrial policy
- Encouraging industrial policy
- Competitive industrial policy
- Restrictive industrial policy
- Protective industrial policy towards infant industries without breaching WTO rules.

# Reform Consideration and Policy Tendency of Chinese Government

- Foreign direct investment policy

My final point is on the foreign direct investment (FDI) policy.

China's key laws, regulations and policies have been put in place to improve the investment environment and to attract foreign investment. In an effort to improve the business environment further and to comply with WTO rules, China has made a number of improvements in FDI policies and laws in the past year. The National People's Congress approved revisions of the Foreign Investment Law and related laws governing J/Vs and wholly foreign-owned enterprises to relax requirements mandating technology transfer, local content, export ratios and the balancing of foreign exchange. Many foreign invested enterprises can now purchase materials, components and equipment on either domestic or international markets on commercial terms rather than local preference. Their products can be sold freely to both markets, although exports are still encouraged through tax and duty rebates. MOFTEC recently issued new regulations to expand the business scope of foreign-invested holding companies, which allow them to consolidate their warehousing and distribution operations, to purchase and own capital assets and inventory, to provide technical training for domestic dealers, to purchase from their parent company a limited quantity of new products for testing the market.

# Reform Consideration and Policy Tendency of Chinese Government

- Foreign direct investment policy  
(Continuation)

To comply with WTO rules, China revised its Foreign Investment Catalog, which is an important guide for foreign investment in different sectors. The newly revised catalog moves a step forward in lifting restrictions on foreign investment in some sectors. For example, the car components sector has been moved from the restricted list to the encouraged list.

Finally, I would like to say, that WTO will promote China's economic development much faster. China will give all of you more opportunities for investment, to get more profits. Thank you!

**Mr. Hans Meiring**, Chairman of ICF Standing Commission

We thank Prof. Xue for his contribution this morning and congratulate him for his hard work and his great effort in order to convince the Chinese government to join WTO and to conform to the protocol which is underwritten by WTO. As he said in his speech, this will allow a more equitable basis for free trade and for other nations in the world to trade with China. Again, we thank you very much Prof. Xue for your contribution and we wish China all of the best for its new endeavor in becoming part of the WTO. Thank you!