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TARIFFS AND TRADE

WORKING PARTY ON CHINA'S STATUS AS A CONTRACTING PARTY

Communication from China

The following statement, dated 9 November 1989, has been received by the Secretariat from the Permanent Mission of the People's Republic of China with the request that it be circulated to the Working Party on China's Status as a Contracting Party.

ADDITIONAL INFORMATION ON CHINA'S FOREIGN TRADE REGIME

At the September informal consultation of the Working Party on China's Status as a Contracting Party, it was suggested that China should clarify the recent changes in its foreign trade regime. In response to this suggestion, the Chinese delegation provides the following additional information.

I. China's Economic Reform, Open Policy and Economic Readjustment

Economic reform and opening to the outside world is the long-term basic national policy embodied in the "Constitution of the People's Republic of China". It reflects the common will of the Chinese people. During the past ten years, this basic national policy has brought vitality and dynamism to the economy. China has recorded a rapid economic growth and marked improvements in the standards of living. Between 1979 and 1988, China's GNP at constant price increased at an average annual rate of 9.6 per cent. The total volume of imports and exports in 1988 were four times higher than that of 1978. Allowing for price rises, the per capita income increased at an average annual rate of 11.8 per cent for farmers and 6.5 per cent for urban residents over the past ten years.

However, structural imbalance emerged from the economic reform, with overheated economic growth and high inflation rate as the striking features. Excessive economic growth beyond the nation's ability began to build up as early as late 1984. There were three major problems: (1) excessive scale and growth of capital investment, (2) irrational economic structure as reflected in sectoral disproportions, and (3) low economic efficiency. Consequently, the Chinese authorities decided in September 1988 to readjust the economy for a period of three years or more with emphasis on control of aggregate demand, increase of effective supply and restructure of industries. At the same time, reform measures would be deepened and improved and the open policy unswervingly implemented. Initial results were achieved in these respects over the past year or so.

From January to September this year, China's total industrial output value reached RMB 961.7 billion yuan, representing 8.9 per cent increase over the corresponding period of last year, or a drop of 8.6 percentage points in the growth rate. Investment in fixed assets was brought under control. For the first nine months of this year, investment by state-owned enterprises was RMB 126.1 billion yuan, recording a reduction of RMB 9.7 billion yuan or 7.2 per cent decrease over the corresponding period of last year. The consumption demand and inflation cooled down. The gap between supply and demand of retail consumption products is expected to narrow from last year's RMB 80 billion yuan to this year's 40 billion yuan. From January to September, the overall price level of retail sales rose by 22.3 per cent, of which new inflation accounted for only 7.6 percentage points, substantially lower than that of the corresponding period of last year. The upward movement in the cost-of-living index for urban residents came down from 26.2 per cent in January to 8 per cent in August. The total bank savings rose by RMB 100 billion from RMB 380.7 billion yuan at the end of last year to RMB 480.6 billion yuan in September this year, representing an increase of 26 per cent in nine months. This reflects the effective role of the macro-economic control and the strengthened confidence in RMB. Foreign trade expansion continued. According to preliminary Customs statistics, the total value of imports and exports in the first nine months

reached US\$ 78.9 billion, an increase of 14.3 per cent over the corresponding period of last year, of which exports standing at US\$ 36.2 billion and imports at US\$ 42.7 billion, up 10.6 per cent and 17.7 per cent respectively. The trade deficit amounted to US\$ 3.9 billion after deducting imports not involving foreign exchange transfer such as foreign-supplied materials for domestic processing and re-export, imported equipment by foreign investors and foreign donations. By mid-September, the non-trade cash account registered a surplus of US\$ 2.17 billion. According to BOP statistics, the current account had a deficit of US\$ 4.15 billion and the capital account a surplus of US\$ 1.92 billion. Direct foreign investment flowed to China steadily. During the period of January to August, the number of newly-approved projects with foreign investment reached 3,866, an increase of 25 per cent over the same period of last year. The committed investment amounted to US\$ 3.739 billion, up 31 per cent, and the actual disbursement US\$ 1.788 billion, up 36 per cent.

The above data shows that China's economy is turning for the better. Excessively high growth was slowed down, over-expanded capital construction curbed, ever-increasing consumption expenditures controlled and inflation checked. The financial situation was fairly stable.

The measures of economic readjustment are carried out in line with the unchanged general policy of reform and opening to the outside world. Economic readjustment and deepening reform are two aspects closely related and mutually reinforcing. Readjustment aims at creating better environment and conditions for further reform and opening to the outside world. The success of readjustment depends largely on the deepening of reform and many readjustment measures themselves are important contents of further reform.

China will not only keep to the direction of the reform and open policy, but also ensure the stability and continuity of the major reforms previously announced or implemented. Reform and opening measures enacted into law by the National People's Congress, or promulgated by the State Council as rules, regulations or decisions shall continue to be in force and implemented.

While persisting in economic reform and open policy, China will further strengthen international economic and technological cooperation, and continue to develop relations with countries all over the world on the basis of equality and mutual benefit. China will actively adopt foreign advanced technology, make use of managerial expertise in production, and absorb foreign investment and external resources by improving investment environment, with a view to speeding up its modernization.

II. Supplementary Information on China's Foreign Trade Regime

[Spec(88)13/Add.4]

2.2.1 Foreign Trade Corporations

The number of corporations and enterprises with foreign trade rights increased sharply from over 800 in 1986 to more than 5,000 by the end of 1988. However not all of them were capable of doing foreign trade business. Some failed to honour their contractual obligations, some violated national trade laws and regulations and international practices, and some ran into total management confusion. In order to preserve China's foreign trade reputation, protect the interests of foreign businessmen, ensure the normal operation of qualified trade corporations and promote healthy development of external trade, it is necessary to overhaul the existing foreign trade corporations and dissolve those unqualified corporations engaged in illegal operation and violation of contractual obligations.

The State designates foreign trade corporations to handle those bulk and resource-based products which have an important bearing on national economy and people's livelihood. The number of import products handled by designated foreign trade corporations has been increased from 9 to 13. Currently it covers cereals, sugar, steel, fertilizer, crude oil, refined oil, rubber, timber, polyester and acrylic fibres, tobacco products, pesticides, agricultural film and its materials, and cotton. The number of export products handled by designated foreign trade corporations has been

reduced from 32 to 21. Currently it covers rice, soya beans, maize, bean dregs, tea, tobacco, cotton, drawn work, pearls, diamonds, coal, tungsten ore and ammonium paratungstate, stibium and stibium oxide, crude oil, refined oil, cotton yarn, cotton/polyester yarn, cotton grey cloth, cotton/polyester grey cloth, silk, and grey silk.

The above product coverages are subject to readjustment necessitated by changed supply-demand situation in domestic production as well as in foreign trade.

2.3 Chambers of Commerce

Six chambers of commerce have been established in the following sectors: (1) cereals, oils, native products and animal by-products; (2) textiles, silk and clothing; (3) light industrial products, arts and crafts; (4) metals, minerals and chemicals; (5) machinery and electronic products; (6) medicines and health products.

3.2.3 Foreign Exchange Allocation Mechanisms Foreign Exchange Swap Centres

The total transaction value in the foreign exchange swap centres amounted to US\$ 6.26 billion in 1988, an increase of 49 per cent over the previous year, of which US\$ 0.662 billion was sold by foreign investment enterprises. The total transaction value in the first half of 1989 amounted to US\$ 3.59 billion, of which US\$ 0.697 billion was sold by foreign investment enterprises, already exceeding the total of 1988.

3.3.2 Import and Export Licensing

The number of products subject to import licensing by MOFERT has been increased from 14 to 16. These products are steel, billets of steel, scrap steel, scrap vessel, natural rubber, timber, plywood, wool, manmade fibres, wood pulp, petroleum oils, sugar, tobacco products, civil aircraft, motor

vehicles and key spare parts. The number of products subject to export licensing has been increased from 159 to 173, the added items including copper, zinc, lead, manganese, iron, and nickel ores, which are domestically in short supply.

3.4 Customs Tariffs and Other Charges on Importation and Exportation

From January 1988 to September 1989, the Tariff Commission of the State Council reviewed and approved tariff adjustments on ten occasions involving tariff increases for 79 import tariff lines and tariff reductions for 25 import tariff lines. Import regulatory tax was imposed on 8 additional items, and export duties imposed on 49 additional tariff lines. Changes in import and export duties were made public prior to their application.

4.1.1 Domestic Price Control System

Of the total value of agricultural products sold by the peasants, the portion under State prices dropped from 92.6 per cent in 1978 to 25 per cent in 1988; the portion under State guidance prices and market prices rose from 7.4 per cent to 75 per cent during the same period. In the case of consumer goods, the portion subject to State prices decreased from 97 per cent in 1978 to 30 per cent in 1988; the portion under State guidance prices and market prices rose from 3 per cent to 70 per cent during the same period. Capital goods and raw materials were almost totally subject to State prices in 1978, and the State-priced portion in 1988 was 60 per cent.

4.1.2 Application of Price Controls to Imported Products

The number of import products for which the State provides import subsidies has been reduced from 28 to 5. These products are chemical fertilizers, wood pulp, raw materials for synthetic detergent, foodstuffs,

and agrochemical intermediates. The volume of the imports handled by the foreign trade corporations under the agency pricing system currently accounts for 90 per cent of the total import volume.

4.4 Technical Standards

The "Law of the People's Republic of China on Import and Export Commodity Inspection" was adopted by the Seventh National People's Congress at its Sixth Session on February 21, 1989. The law went into effect on August 1, 1989, superseding the "Regulations on the Inspection of Import and Export Commodity of the People's Republic of China" promulgated by the State Council on January 28, 1984.

The list of import and export commodities subject to compulsory inspection was established by the State Administration for the Inspection of Import and Export commodities. There are currently 40 categories of import commodities placed in the list. They are: complete set of equipment, motor vehicles, agricultural machinery, power machinery, pressure vessels, electrical devices, machine tools, steel, non-ferrous metals and their minerals, ferrous metals and their mineral products, coal, petroleum and its products, rubber, chemical fertilizer, chemical materials, pesticides, Chinese medicines, household electric appliances, cosmetics, toys, pulp and paper, television and acoustic equipment, cameras, cotton and jute, cellulose fibres, synthetic fibres, yarns and their fabrics, cereals, beans, animal fat and vegetable oils, fresh fruits, aquatic products, sugars, dairy products, coffee and cocoa products, feed stuffs, timbers, animal products, tobacco and supplementaries, and building materials.