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WORKING PARTY ON CHINA'S STATUS AS A CONTRACTING PARTY

Communication from China

The representative of China has requested the Secretariat to circulate the attached communication to the members of the Working Party.

STATEMENT BY Mr. SHEN JUEREN
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HEAD OF THE CHINESE DELEGATION AT
THE THIRD SESSION OF THE WORKING PARTY ON CHINA

(Geneva, April 26, 1988)

Mr. Chairman,

Distinguished Delegates,

The Chinese delegation is very pleased to be present at this session of the Working Party to continue the discussions on China's foreign trade regime.

First of all, let me recall that at the February session, I gave a brief account of the progress of China's economic structural reform and the operational mechanism of a planned commodity economy. My colleagues and I provided a series of facts to illustrate that the present economic system in China having undertaken reform for ten years is no longer a centrally-controlled planned economy, but one which integrates planning with market mechanism. I also informed the Working Party that China would further intensify the economic reform in six aspects and would embark on a full-scale reform of its foreign trade regime. This demonstrates that China has made a great stride and achieved remarkable progress in reorienting its economic development strategy and reforming its economic structure in line with international rules of competition and participating in the world economic system. The reform is comprehensive and profound. It has gone beyond simply absorbing certain elements of market orientation. It has served to facilitate full development of China's productive force and the establishment of a commodity economy in China. With my short statement at the last meeting met with positive and warm response from you, I am aware that due to the limitation of length, it might not be sufficient to help you get a full and thorough understanding as to how the current economic system functions in China. For this purpose, the Chinese delegation is submitting a paper entitled "The Progress and Objective of China's Economic Reform" for distribution at this meeting in the hope of enhancing the understanding on China's new economic system.

According to the provisional agenda agreed upon at the last session of the Working Party, discussions at the present session will focus on subject matters concerning China's foreign trade regime.

Now let me turn to the question of the reform of the foreign trade regime. In 1979, the Chinese Government took a decision to restructure the economic system which led to a progressive transform from a wholly-planned economy into a planned commodity economy. The development of a commodity economy calls for concomitant change in the trade regime characterized by monopolized management. Over the last few years, we have conducted a major reform of the trade regime through decentralizing foreign trade authority, expanding foreign trade channels, granting production enterprises the power to engage in foreign trade and improving macroeconomic management. In keeping abreast with the need of national economic development and in line with the open policy, we have adjusted for several times the exchange rate of the Renminbi, revised the "Customs Law", "Regulation of Import and Export Duties", "Customs Import and Export Tariff", substantially modified tariff rates thus enhancing the regulatory function of tariffs in China's foreign trade.

At present, we are in the process of accelerating and intensifying the reform of the foreign trade regime with a view to abolishing the practices in which the government took upon itself the responsibility for profits and losses of foreign trade enterprises, introducing the contractual responsibility system for all foreign trade enterprises, thus placing them on the right track of being self-accountable for profit and loss. The following measures have been taken toward that end:

Firstly, to reduce the regulatory function of central planning and expanding the role of macroeconomic policy. In the past, China's foreign trade used to be controlled by highly centralized planning with more than 3,000 products subject to mandatory planning. According to rough estimate of foreign trade planning for 1988, export products subject to mandatory planning will account for 30% of total exports, those subject to guidance plans will account for 15%, the remaining 55% will be liberalized and will no longer be included in any export plans. Of total imports, products subject to mandatory planning account for 20%, for another 20% of them, import plan only specify certain amount of import values for particular purposes, the remaining 60% will be liberalized without being subject to any plans.

The mandatory plans for imports are designed to guarantee a minimum level of imports for development projects. Enterprises have full opportunity for importation under the guidance plan and market mechanism.

Secondly, the system in which the state was responsible for all incomes and spending is being transformed into a contractual responsibility system whereby foreign trade and production enterprises undertake foreign exchange remission target and management efficiency target. Apart from the retained proportion of foreign exchange specified in the contract, the enterprises are allowed to retain the major proportion of above target foreign exchange income. The state continues to provide temporary, but limited economic assistance to the contracted foreign trade enterprises. Foreign trade and production enterprises through a contractual arrangement acquire greater power for independent management. The success or failure in the management has a direct impact on its own interests. All foreign trade enterprises and production enterprises authorized to engaged in export and import business become independent corporate entities operating within the framework of a unified foreign trade policy. However, they can forge horizontal economic ties on the basis of mutual interests. Government agencies exercise macroeconomic administration over foreign trade and create favourable environment for foreign trade and production enterprises in their imports and export activities without interference in their management.

Thirdly, to increase foreign exchange retention for free disposal and free transaction. Foreign trade enterprises remit most of the foreign exchange income within the contracted target, to the state and retain a minor proportion. However, they can retain the major proportion of foreign exchange income in excess of contract target and remit the remaining minor proportion to the state. Thus, foreign trade and production enterprises will have much more foreign exchange at their own disposal, which they can use for purchase of goods abroad or for currency transactions in the local foreign exchange transaction centres. At present, there are such centres in various provinces, municipalities and autonomous regions, and by going through certain procedures foreign trade enterprises, production enterprises, and foreign investment enterprises can make foreign exchange deals in these centres at prices negotiated by the buyers and sellers.

Finally, to reduce economic assistance and to refund internal taxes. Before the economic restructuring is completed and the pricing system rationalized and before the serious distortions in the international markets of products of major export interests to China are corrected, it would be necessary for the state to maintain limited temporary economic assistance and incentives to foreign trade enterprises. While the refund of internal taxes will generally apply to all exports, economic assistance to exporting enterprises will be progressively reduced. We have actually eliminated such assistance to the three sectors of light industrial products, arts and crafts and clothing.

At present, China is actively and steadily intensifying the reform of the foreign trade regime. Our foreign trade enterprises have become independent corporate entities accountable for profits and losses. They participate in international competition on commercial consideration. In this sense, there is no substantive difference between our foreign trade enterprises and those in market economy countries. Preliminary study on our import and export licensing system, customs valuation and technical standard for export and import products shows that our systems are basically consistent with the General Agreement.

Distinguished Delegates, at the last session, I took note of the statements by the delegates of the United State, the European Economic Community and other Contracting Parties, I would like to take this opportunity to reiterate the basic position of the Chinese Government on the resumption of its status as a contracting party to GATT.

Firstly, China's request for the resumption of its status as a contracting party to GATT is justifiable. It is a historical fact that China is one of the founding contracting parties to GATT. The founding of the People's Republic of China in 1949 did not alter China's status as a subject of international law. The withdrawal from GATT in 1950 by the deposed regime in Taiwan was illegal and invalid. The United Nations in a resolution adopted in 1971, decided to restore all its rights to the People's Republic of China in the United Nations and in all the organizations related to it and recognize the representatives of the government of the People's Republic of China as the only legitimate representatives of China. On the understanding that the GATT follows decisions of the United Nations on essentially political matters, the CONTRACTING PARTIES terminated the status of the observer from Taiwan. The IMF, World Bank and other inter-governmental organizations have all restored China's lawful rights in accordance with the above-mentioned United Nations General Assembly Resolution. Therefore, there is a sufficient political and legal basis for China's request for resumption of its status as a contracting party. However, having taken into account the contractual nature of the General Agreement, we agree to enter into substantive negotiations with contracting parties for the resumption of China's contracting party status and set the rights and obligations. In view of considerable changes having taken place during the suspension of relation between China and GATT, my government proposes to take a non-retroactive approach to issues occurred during the period of suspension. This approach would be in the interest of all parties.

Secondly, the resumption of China's status as a contracting party to GATT should provide China with treatment of an equal trading partner enjoying all GATT rights. At the same time, China will undertake relevant obligations, including tariff negotiations with contracting parties and application of part II

of the General Agreement to the fullest extent not inconsistent with existing national legislation. China did not participate in the Tokyo Round of Multilateral Trade Negotiations. However, we are studying carefully on the Tokyo Round Agreements and would be able to take a decision on possible acceptance of these agreements in due course.

Thirdly, China is a developing country which receives treatment of low income developing countries in the IMF and World Bank. China is a beneficiary of official development assistance and GSP Schemes of most of the developed countries. Therefore, while undertaking obligations commensurate with its level of economic development, China should be entitled to the favourable treatment generally accorded to developing countries under part IV and other relevant provisions of the General Agreement.

Fourthly, contracting parties should remove all tariff and non-tariff measures against China, which are inconsistent with the basic principles of the General Agreement. For example, contracting parties should accord China unconditional most-favoured-nation treatment, eliminate discriminatory quantitative restrictions and discriminatory anti-dumping and countervailing duty procedures against China. Developed countries which have not accorded China GSP treatment, should also do so.

At the last meeting in February, various approaches were voiced in respect of terms and conditions for the resumption of China's GATT membership. I would like to take this opportunity to respond to some of the major points raised.

1. China's Ability to Meet GATT Obligations

Some contracting parties are of the view that China is a centrally-controlled planned economy, thus is not capable of meeting its GATT obligations. As I have previously mentioned China is not a purely centrally-controlled planned economy, but one which integrates planning with the market. We recognize that GATT is drawn up on the basis of market economy. However, GATT as a contractual agreement is applicable to different economic systems. In fact, the economic system varies from country to country, be they developed or developing. The basic principle of GATT is to ensure that the conduct of international trade is based on comparative advantage. The new operational mechanism of the Chinese economy serves to promote its active participation in international division of labour on that basis. As a result of the reform, great changes have taken place in China's planning system. The chief function of the Government has been shifted to macro-economic control. With the "Law on Industrial Enterprises" and the "Law on Bankruptcy" going into effect one after the other, Chinese enterprises have full authority over their management and conduct business on commercial considerations just

as those in market economy countries. China has bilateral trade agreements containing mfn clause with most of GATT contracting parties, and keeps a good record of faithful observance of its contractual obligations. The major proportion of China's trade is with GATT contracting parties. Therefore, China's current economic system does not preclude at all the access of products from GATT contracting parties to our market. Of course, much would depend on their competitiveness. China is fully capable of meeting its GATT obligations under the new economic system of China.

2. Obligations as a Non-Market Economy

There are no such provisions in GATT regarding so-called "obligations of non-market economy". Therefore it is not appropriate to ask China to undertake such obligations. Over the past nine years, China has substantially restructured its economy, and much progress has been achieved in the establishment of a new system of commodity economy. Recently it further decided to intensify the reform, develop the market mechanism and speed up the implementation of the export-oriented economic strategy. If China is required to assume obligation as a non-market economy, it would be inconsistent not only with China's actual situation, but also with the general policy of further reform and wider opening to the outside world.

3. Developing Country Status

It is a widely recognized fact that China is a developing country at its current level of economic development. We don't agree to the argument that China, not being a full market economy should not enjoy preferential treatment of developing countries in GATT. Obviously, the rationale for GATT to accord preferential treatment to developing countries is to help those contracting parties which can only support low standards of living and are in the early stage of development to accelerate their economic growth so as to enhance the GATT objectives. Fast development of Chinese economy will promote the expansion of world trade and fully conform with the basic objectives of GATT. While reaffirming its developing country status, China by no means seeks to evade its appropriate obligations. We have repeatedly stated that China would undertake GATT obligations consistent with the level of its economic development.

4. Transparency of Foreign Trade Regime and Consultation

We have noted that a number of contracting parties are concerned about transparency of China's foreign trade regime in the process of reform and call for certain review and consultation procedures. In this connection, I wish to state that the Chinese Government will meet the requirements of Article 10 of GATT so as to ensure the transparency of its foreign trade regime. GATT has other review and consultation mechanisms such as

review procedures on import restrictions taken for balance of payment purposes and Articles 22 and 23 on consultation and dispute settlement, all of which already offer possibilities of reviewing China's foreign trade regime. Moreover, a new review mechanism is under consideration by the Negotiating Group on Functioning of GATT system in the context of the Uruguay Round. Therefore, these consultation and review mechanisms provide adequate opportunities for the contracting parties to review China's foreign trade regime.

5. Selective Safeguard Clause

Selective safeguard clause is in contravention of GATT basic principles. There is already a large number of Chinese export products subject to discriminatory safeguard measures. Such measures restrict the export of Chinese products of high international competitiveness, limit the increase of export earning and the expansion of China's import capability, consequently, affect trade expansion between China and other contracting parties. At present, contracting parties are seeking in the Uruguay Round to improve the safeguard clause of the General Agreement. The Uruguay Ministerial Declaration reaffirms the basic principle of non-discrimination for an improved safeguard clause. It is contrary to the basic principle of the General Agreement and the objective of the Uruguay Round to request China to accept a selective safeguard clause.

Mr. Chairman, China's participation in the world economic system stems from the need of further opening to the outside world and the desire to develop economic and trade relations with other countries. The GATT is a contractual agreement and an international framework accommodating economic and social systems of different nature and countries of different levels of economic developments, which enjoy common rights and undertake common obligations. We are convinced that by the progress we have achieved and by the evolving trend in reform and opening to the outside world the system of planned commodity economy in China is consistent with the GATT system.

In conclusion, I would like to repeat my remarks at the last session Working Party that China's return to GATT is a positive factor and will bring into the multilateral trading system new vitality. China's participation will not, as some worries, constitute a source of tension and disturbance. We look forward to an early return to GATT and to make greater contribution to the strengthening of the multilateral trading system together with other contracting parties. I would also like to reiterate that China has sincerity to enter into substantive negotiations

with contracting parties on the matter of resumption.

Now, my colleagues and I are ready to answer questions from the representatives.

I wish the current session every success.

Thank you Mr. Chairman and thank you all.