At its meeting on 27-29 September 1988 the Working Party on China's Status as a Contracting Party asked the Secretariat to prepare a structured summary of the information provided by China on its foreign trade regime. The present note has been prepared in response to this request. It is based on the information provided in the Memorandum on China's Foreign Trade Regime, dated 13 February 1987 (L/6125), the document containing the questions and replies concerning the Memorandum on China's Foreign Trade Regime, dated 27 November 1987 (L/6270) and the information provided by China in response to questions by members of the Working Party (Spec(88)13 and addenda 1-3 and informal Secretariat papers dated 24 March, 3 June and 14 September 1988).

The present summary has been checked for accuracy by the Chinese Authorities. The structure of the paper, in particular the choice of the headings under which the different aspects of the trade regime are described, is the sole responsibility of the Secretariat.
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I. **INTRODUCTION**

1.1 *Basic Features of China's Economy*

China has a population of over 1.04 billion, with a territory of 9.6 million square kilometres. Before 1949, the output value of agriculture and handicraft industry made up over 90 per cent of the total output value of industry and agriculture. People lived in poverty and the economy was extremely backward. Since the founding of the People's Republic of China, production has increased substantially and living standards have improved. In 1985, the total output value of industry and agriculture reached Renminbi yuan (RMB) 1,333.6 billion (about US$ 454.1 billion), of which the output value of industry was RMB 875.6 billion (about US$ 298.2 billion). However, the living standard of the Chinese people is still low. Eighty per cent of the population is still living in the countryside. In 1985, the average annual per capita net income was RMB 398 (about US$ 136) for rural dwellers and the average annual living expenses were RMB 752 (about US$ 256) for city residents. Per capita national income in 1985 was RMB 656 (about US$ 223).

China's foreign trade has developed rapidly in recent years. In 1985, the total value of imports and exports of goods reached US$ 69.61 billion, 84.1 per cent higher than that in 1980. Export value stood at US$ 27.36 billion and import value at US$ 42.25 billion, registering an increase of 49.8 per cent and 116.1 per cent, respectively, compared with 1980. However, China’s foreign trade is still small relative to both national product and world trade. China's export value of 1985 represented only 1.42 per cent of the world's total. Most of the export commodities were primary products and textiles. Manufactures, such as machinery and electronic goods, account for only a small portion of China's exports. There is a rising domestic demand for raw materials, advanced technology and equipment. A large trade deficit has developed as imports have been growing more rapidly than exports.

During the seven years from 1979 to 1985, medium and long-term foreign loans totalled US$ 13.1 billion and direct foreign investment US$ 6.1 billion, leading to the establishment of more than 6,800 Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and wholly foreign-owned enterprises. A considerable amount of foreign exchange has been spent on import of foreign technology involved in over 10,000 projects.

1.2 *Economic Objectives of the Seventh Five-Year Plan (1986-1990)*

During the period of the Seventh Five-Year Plan (1986-1990), China's "open door policy" aims at increasing export earnings, promoting external economic, trade and technological exchange, attracting more foreign investment and technology and expanding the scale of other forms of economic co-operation to facilitate socialist modernization. The Plan contains the following specific objectives:

(1) Trade: The total volume of imports and exports will increase at an annual rate of 7 per cent, reaching US$ 83 billion in 1990. Exports
will increase by 8.1 per cent and imports by 6.1 per cent. The proportion of the manufactured goods exported by China is expected to increase. As for the import commodity mix, the stress is placed on software, advanced technology, key equipment and the materials for production which are urgently needed and in short supply in the domestic market.

(2) Foreign Investment: Priority is given to development of energy, transportation, communications and raw materials, particularly projects for electric power generation, port facilities, oil drilling, and technical transformation of machinery and electronics industries; and to export-oriented projects and import substitution.

(3) Foreign Technology: Priority is given to technological transformation of existing enterprises, to export-oriented projects and import substitution. Foreign expertise of various forms is to be widely utilized.

(4) Special Economic Zones: Efforts are to be made to complete projects of infrastructure and projects related to foreign investment; to construct projects of high and technological intensity by absorbing foreign investment; to develop a number of highly competitive export items; and to establish an export-oriented economy.

(5) Open Coastal Cities: These cities are expected to bring into full play their advantages, by expanding foreign economic and technological activities and by speeding up the technological transformation of the existing enterprises.

The objectives of agricultural development in the Seventh Five-Year Plan are as follows:

(1) The average annual output of grain will reach 415 million tons (425 to 450 million tons in 1990), representing an annual increase of 12 per cent, a rate above that recorded during the Sixth Five-Year Plan.

(2) The average annual output of cotton will be 4.25 million tons, registering a small decline in the rate recorded in the period of the previous Five-Year Plan.

(3) Edible oil crops are expected to register an increased output of 42 per cent over that of the Sixth Five-Year Plan, with average annual output reaching 17.12 million tons (18.25 million tons in 1990).

(4) Average annual output of the sugar crop will be 63.85 million tons (68.75 million tons in 1990), with an increase of 40 per cent which would be a rate above that registered in the period of the previous Five-Year Plan.

(5) As regards forestry, 27.7 million hectares (415.5 million mu) will be afforested in five years. Efforts will be made to increase production all over the country, from an annual increase of 12 per cent in 1985 to 14 per cent in 1990.
(6) As for livestock and animal husbandry, the total output of meat products in 1990 will be 22.75 million tons, a 19.7 per cent increase over that of 1985; dairy products will reach 6.25 million tons, 110 per cent higher than that of 1985; the output of eggs will be 8.75 million tons with an increase of 65 per cent over that of 1985.

(7) The total output of aquatic products in 1990 will be 9 million tons, with an increase of 29 per cent over that of 1985.

1.3 Recent Reforms of China's Economic Structure

The Chinese Government considers that the centralized planned economic system, practised in China for a long time, contributed greatly to the establishment of an independent and fairly complete industrial economy. However, under this system, economic decision-making was over-centralized and mandatory plans were overemphasized to the neglect of the role of the market mechanism. As a result, the enterprises were operated inefficiently. To overcome the defects of that system and give full play to the productive forces, China has progressively reformed its economic system since 1979. The objective of the Chinese Government is to establish a "planned commodity economy", that could be understood as a socialist market economy based on public ownership. The crucial difference between a socialist market economy in China and a capitalist market economy is, in the view of the Chinese authorities, the difference in the ownership of the means of production. Otherwise, economic mechanisms and principles can be identical.

In the rural economy, the system of three-level public ownership (people's commune, production brigade, production team) has been replaced by a system in which households are the basic unit of production. The rural households enter into land lease contracts with the villagers' committee, an autonomous peasant organization. During the tenure of each contract (15-30 years, renewable), the rural households use the collectively-owned land to engage in independent agricultural production and make small contributions to the public cumulation fund and welfare fund. In addition to the individual households, there have emerged specialized households, self-employed industrial and commercial households, joint production units engaged in the production and sale of merchandise, and other forms of associations. The relationship between the rural household and the State is governed through contracts setting a specified quantity of agricultural products to be sold by the rural household to the State at a specified price.

In the industrial field, the principles of enterprise management have also substantially changed. The principle of separation of ownership and managerial authority of enterprises has been adopted. Most production enterprises are now operating under a system under which the manager has full responsibility and considerable decision-making power in such matters as planning, purchasing and marketing, pricing, wage and bonus determination, as well as labour regulation. Enterprises are moving towards full responsibility for their own profits and losses. Various modes of management are being practised in the State-owned enterprises. Many medium and small-sized State enterprises are now being contracted or leased out. The establishment of conglomerates and groups of enterprises is encouraged, and shareholder enterprises have been set up on an experimental basis. Currently, there are not only State-owned and
collective enterprises, but also individual households, private enterprises, Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and wholly foreign-owned enterprises in China. The Chinese authorities intend to develop a multi-formed system of ownership of the means of production while preserving the dominant position of public ownership.

1.4 Objectives of Future Reforms

The Chinese authorities consider that China is in a period of transition during which features of the old economic system and those of the new one coexist. In their view, the full realization of the new planned commodity economy requires further reform efforts: First, the management mechanisms for State-owned enterprises and their autonomy vis-à-vis the State need to be further refined to ensure their efficiency and competitiveness. Second, long-term and short-term financial markets and markets for stocks, foreign exchange, technology, labour and real estate need to be developed and expanded, and the pricing and price administration for merchandise has to be further reformed with a view to limiting price controls to a few essential items. Third, as the direct State controls over enterprises decline in importance, the Government's macro-economic controls of the economy have to be improved. Fourth, as China's integration in the world economy continues to expand, foreign trade enterprises need to be given full management autonomy and responsibility for their profits and losses so as to improve the coordination between domestic industry and foreign trade. Fifth, the legal system and its enforcement have to be further strengthened so as to ensure the implementation of the new planned commodity economy system.

The Chinese authorities intend to achieve a foreign trade system with the following features: The State will regulate foreign trade mainly through economic, legal and administrative means, without direct intervention in the operations of the enterprises. The enterprises will therefore be able to choose the most economic and appropriate means of conducting foreign trade and make their own decisions. Mandatory planning will be abolished and replaced by guidance planning and market regulation.

The Chinese authorities intend to introduce around 1990 a system of price controls in which the prices of a very limited number of important commodities and services are set by the State and State guidance prices or market-regulated prices are applied for most commodities and services. During the period of the Seventh Five-Year Plan (1986-1990), and for a certain period thereafter, the following price reforms are expected by the Chinese authorities:

(1) Consumer goods: Except for a number of important commodities such as grain, edible oil, cotton cloth, cotton yarn, salt and pork, which will continue to be subject to State prices or guidance prices, the prices of the rest of ordinary consumer goods will be further liberalized according to supply and demand conditions of the market.

(2) Capital goods: According to the policy of readjustment and liberalization, State prices of the crucial capital goods will be readjusted with product coverage further reduced. The discrepancy between State prices and market prices is expected to be further reduced.
(3) Service charges: Service charges of railways, post and telecommunications, public transportation, air transport and ocean shipping will remain under State control and will be appropriately readjusted. Other service charges will be gradually liberalized.

The Chinese authorities intend to continue to expand and improve the foreign exchange market, steadily pursue exchange rate reform, increase the percentage of foreign exchange that may be retained by enterprises, allow more foreign exchange flows into the market, and reinforce the regulatory role of the market. At the same time, China intends to strengthen its control over the balance of payments through monetary and other macro-economic policies.
2. INSTITUTIONAL FRAMEWORK

2.1 Government Agencies

2.1.1 Central Government

The decision-making power on foreign trade as a whole rests with the State Council. In accordance with Article 89 of the Constitution of the People's Republic of China, the State Council exercises the following functions and powers concerning foreign economic relations and trade: it adopts administrative measures concerning foreign economic relations and trade, enacts administrative rules and regulations and issues decisions and orders according to the Constitution and the statutes; submits proposals to the National People's Congress or its Standing Committee; lays down the tasks and responsibilities of the ministries and commissions of the State Council, exercises unified leadership over the work of the ministries and commissions; draws up and implements the plan for national economic and social development; conducts foreign affairs and concludes treaties and agreements with foreign states; and alters or annuls inappropriate decisions, orders and regulations issued by the ministries, commissions or local organs of State administrations at different levels. The State Commission for Economic Restructuring assists and advises the State Council in the field of economic structural reform. It coordinates the implementation of the reform among the various ministries and commissions.

The State Planning Commission is responsible for the formulation of the long-term, medium-term and annual plans for national social and economic development. Once the plans are approved by the State Council, all government agencies concerned are responsible for facilitating the implementation of the plans. The State Planning Commission is responsible for overall balance of national economic and social development, industrial restructuring, long-term programmes, and guidance for economic planning of other economic departments. The Commission determines the products subject to production and trade controls according to the importance of the products to the national economic and social development as well as the balance of production and demand.

The Ministry of Foreign Economic Relations and Trade (MOFERT) formulates foreign trade policies and, together with its subordinate departments, exercises administrative supervision over foreign trade. MOFERT is the functional department of the Central Government in charge of external economic relations and trade. It is responsible for implementing foreign trade policies; drawing up long-term foreign trade development programmes and medium-term and annual import-export plans in coordination with the State Planning Commission, and supervising their implementation; organizing bilateral and multilateral trade negotiations between governments, negotiating trade agreements, and organizing their implementation; approving the establishment of import and export enterprises; implementing the import and export licensing system (including the allocation of export quotas for textiles and clothing); and engaging in international market research and disseminating information.
The business activities of all enterprises involved in foreign trade are under the policy guidance of MOFERT and subject to regulations and mandatory plans promulgated by MOFERT. The Ministry authorizes the establishment of foreign trade corporations and supervises their operations but does not participate directly in foreign trade transactions, nor does it interfere with the management and business activities of enterprises. When a foreign trade corporation fails to implement State policy, or violates laws and regulations, MOFERT can intervene in its business activities or even withdraw the authorization to conduct foreign trade.

There are 26 departments in MOFERT, of which the following are particularly concerned with foreign trade policies and administration: Department of Treaties and Laws, responsible for drafting laws and decrees of foreign economic relations and trade and for examining agreements, contracts and articles of association; Department of Foreign Trade Administration, responsible for the administration of foreign trade activities of the relevant departments and localities, issuing import and export licenses, allocating quotas, and approving the establishment of import and export enterprises; Import and Export Department, responsible for coordination of import and export for the whole country; First, Second, and Third Departments for Regional Affairs, responsible for bilateral economic relations and trade; and Department of International Relations, responsible for multilateral economic relations and trade.

MOFERT has set up special commissioner offices at the provincial level which administer and supervise foreign trade in their respective areas and issue certain import and export licenses, as authorized by MOFERT. Foreign economic and trade departments of provinces, autonomous regions and municipalities administer local foreign economic relations and trade under the leadership of MOFERT and the local governments concerned.

The Tariff Commission, which includes representatives from MOFERT, the State Planning Commission and the Ministry of Finance, among other agencies, is responsible for formulating the guidelines, policies and principles governing the Regulations on Import and Export Duties and the Customs Import and Export Tariff. It also has responsibility for revising the tariff schedule following the examination and approval of requests for partial readjustments. However, the establishment of a new tariff schedule or the overall revision of the existing schedule must be submitted to the State Council for approval.

Under the direct guidance of the State Council, the Customs General Administration is responsible for the national Customs service. Its main functions are to control inbound and outbound goods, currencies, gold and silver, postal articles, passengers' luggage, transport vehicles and their crews' personal effects; to collect customs duties, taxes and fees; to prevent smuggling; and to compile customs statistics.

The State Administration for the Inspection of Import and Export Commodities supervises and administers the inspection of import and export commodities and controls their quality. In 1980, the China National Import
and Export Commodities Inspection Corporation was established. The Corporation, although subject to the supervision of the State Administration, operates independently and carries out a wide range of inspection activities. At the request of foreign clients, the Corporation may carry out inspections and issue inspection certificates. The State Bureau of Technical Supervision exercises quality control in the domestic production process. Both administrations cooperate to avoid inconsistencies in their policies and principles.

The Ministry of Finance is responsible for drawing up the rules and regulations in respect of the State financial budget; managing revenue, expenditure and taxes, including taxes concerning foreign nationals; supervising China's domestic and foreign debt, as well as loans granted to China by the World Bank; managing national income and expenses of foreign exchange earned from sources other than merchandise trade; and supervising financial activities of the ministries, commissions and localities. The Ministry of Finance is not involved in the determination of prices of commodities traded at home and abroad.

The State Pricing Administration exercises supervision to ensure that the same pricing system is applied to imported and domestic products.

The People's Bank of China is the central bank which exercises leadership and administration over money and finance throughout the country. Its functions include: drawing up and implementing policies and rules and regulations with regard to banking and financing; controlling the issuance and circulation of currency; managing the interest rate of deposits and loans, and fixing the foreign exchange rate between Renminbi and foreign currencies; compiling the State credit plan and administering credit funds and working capital of State-owned enterprises; administering foreign exchange and reserves of foreign exchange and gold; approving the establishment, rescission or merger of the specialized banks or other financial institutions; managing and supervising the business of the specialized banks and other financial institutions; acting as agent in issuing government bonds; and administering shares, bonds and other securities of enterprises.

The Bank of China is a State bank specialized in foreign exchange operations. As authorized by the State and entrusted by the People's Bank of China, it signs agreements with foreign governments and central banks. It also participates in international financial activities, conducts foreign exchange business for the State and guarantees loan agreements by foreign banks to Chinese enterprises. The Bank of China also provides guarantees and certifications to foreign banks on the business and financial standing of Chinese enterprises requesting foreign loans.

The State Administration of Exchange Control (SAEC), under the leadership of the People's Bank of China, is in charge of foreign exchange control. Its major functions include: formulating rules and regulations
of foreign exchange control; participating in the preparation of the State plan for foreign exchange receipts and payments, and supervising its implementation; fixing and publishing the exchange rates of Renminbi; controlling official foreign exchange reserves and foreign debts; controlling foreign exchange dealings, trade and non-trade receipts and payments; and investigating cases involving violation of the regulations governing foreign exchange control and penalizing violators.

2.1.2 Provincial and Municipal Governments

The State has delegated part of the administrative powers in the field of foreign trade to the provinces, autonomous regions and municipalities. The Departments (or Commissions) of Foreign Economic Relations and Trade of provinces, autonomous regions and municipalities administer and supervise foreign trade in the areas of their jurisdiction in accordance with the authorization of MOFERT. With the decentralization of China's foreign trade administration and the independent management of foreign trade enterprises, the Central Government exercises control mainly through strengthened enforcement of laws, regulations and policies applicable throughout China. For example, local governments and enterprises have to abide by customs laws and regulations, licensing regulations and foreign exchange control regulations. All local regulations have to be consistent with State laws and regulations.

The local governments, through the foreign economic and trade bureaus, supervise the implementation of State policies, laws and regulations and the fulfilment of targets established in contracts between the State and production enterprises. However, according to the principle of separating ownership from managerial authority, local government agencies are not permitted to interfere with the business activities of enterprises. Local governments are not allowed to give local foreign trade enterprises monopoly rights within their territory.

2.2 Enterprises

2.2.1 Foreign Trade Corporations

China's State-owned foreign trade corporations have full powers to make decisions within the framework of State laws, regulations and policies. The independent management of the enterprises is one of the objectives of the economic restructuring programme. To promote management efficiency, most of the local subsidiaries of the foreign trade corporations have been delinked from the national corporations and become independent legal entities responsible for their profits and losses. Local foreign trade corporations undertake contractual obligations to fulfil targets in export earnings, foreign exchange submission and economic efficiency.

The State does not assign areas of exclusive geographic responsibility to foreign trade corporations. The plan targets for imports with centrally-held foreign exchange are distributed among national and local
foreign trade corporations according to their operational ability. With
the exception of 9 import products and 32 export products, which are
handled by specifically designated foreign trade corporations, all other
products may be imported or exported by any corporation. The specific
commodities imported by designated foreign trade corporations are steel,
fertilizer, cereals, timber, chemical fibres, automobiles, disused ships,
tobacco and rubber. The export products presently handled by designated
State foreign trade corporations are: rice, soya beans, peanuts, frozen
pork, cotton, cotton yarn, cotton grey cloth, cotton/polyester yarn,
cotton/polyester grey cloth, drawdown, tobacco, tea, silk, crude oil,
petroleum products, coal, maize, prawns, pearls, gin-seng, pilose antler,
Chinese angelica, Tienchi, royal jelly (including the powder), canned
mushrooms, salted water mushrooms, eel (including its fry in different
species), heavy water, diamonds, rabbit hair, tungsten ore and ammonium
paratungstate.

Trade in agricultural products is, in general, handled by China
Cereals, Oils and Foodstuffs Import and Export Corporation and China Native
Product and Animal By-Products Import and Export Corporations. China
National Cereals, Oils and Foodstuffs Import and Export Corporation deals
mainly with cereals, pulses, bean cakes, oil seeds, vegetables, animal
fats, tung oil, livestock and poultry, frozen meat and meat products, eggs,
processed egg products, aquatic products, fresh fast frozen, salted and
wild vegetables, assorted canned products, mushrooms in brine, fine sugar,
salt, confectionery and biscuits, rice and wheat flour products, dairy
products, beverages, beer, groundnut products, condiments, wine and
spirits. China National Native Produce and Animal By-Products Import and
Export Corporation deals with industrial raw materials, tea, tobacco and
its products, jute and jute products, spices and essential oils, bamboo,
wood and their products, dried fruits and dehydrated vegetables, daily
necessities, foodstuffs, hog bristles, bristle brushes, casings, hair and
wool, hand-woven carpets and rugs, feather and down, feather and
down-filled products, leather, fur and their products.

Foreign trade corporations are free to import without an import
license any product other than the 53 products under the licensing system.
MOFERT does not set guidelines for the foreign trade corporations, nor
detailed rules regarding the choice of origin of imports. The origins of
imports are decided by the corporations themselves on the basis of the
requests of end-users and market conditions.

2.2.2 Production Enterprises

Production enterprises with foreign trade rights may export products
produced by them and import products for their own use. The existence of a
relatively stable source of supply for export products is one of the
conditions for authorization to engage in exports. China considers that
this rule is in the interest of both the Chinese enterprises and their
foreign trading partners because without a stable source of supply an
enterprise cannot meet its contractual obligations. A production
enterprise supplying export products of a value of US$ 3 million or more
qualifies for authorization to engage in export business. China authorizes
production enterprises to engage in direct exports in order to encourage
the initiative of the enterprises and expand exports. Enterprises without foreign trade rights can request foreign trade corporations to conduct imports and exports on their behalf. The fees charged by foreign trade corporations for this service are not fixed; however, they are in general within the range of 1.5 to 3 per cent of the transaction value.

Production enterprises with foreign trade rights have autonomy in the conduct of business within their designated scope of operation. Production enterprises approved to engage in export business may conclude contracts with foreign companies directly. The government does not interfere with the business activities of the enterprises. They can sign import and export contracts on the request of customers. Moreover, the large and medium-sized enterprises approved to engage in foreign trade do not have to report to MOFERT on their import and export activities within their scope of business. However, they are required to regularly submit statistical reports to the competent departments of the localities.

The implementation of the contract responsibility system on a trial basis began in May 1984 in State-owned industrial enterprises. By the end of 1987, 80 per cent of all State-owned enterprises had adopted this system. The recently adopted "Law on State-owned Industrial Enterprises" codified these practices. Under the contract responsibility system, a manager, selected on the basis of open competitive recruitment, is made fully responsible for the State-owned enterprise. The State concludes a contract with the manager setting out the enterprise's rights and obligations towards the State. The contract generally stipulates the portion of profits to be surrendered to the State and in some cases also technical, financial and other targets to be achieved. In 1987, mandatory production targets were fixed for only 17 per cent of industrial output. The total volume of wages is also fixed, usually in relation to the profits earned. If the manager fails to meet his obligations under the contract he has to pay penalties; his personal property is mortgaged as security for that eventuality. The contract leaves it to the manager to decide without government interference how to achieve the agreed targets. The profit-sharing arrangements are such that the successful operation of an enterprise benefits not only the State but also the manager and the workers and therefore gives them incentives to raise productivity and to promptly respond to changes in market demand.

A share-holding system has recently emerged. Under this system, enterprises and government bodies can acquire shares of enterprises and thereby become entitled to participate in their decisions and to receive part of their profits. The system, which is still in an experimental stage and therefore not yet subject to specific regulations, is now mainly used by enterprises which wish to create mutual horizontal ties.

China promulgated a Bankruptcy Law on 2 December 1986. In case of operational losses, a State enterprise may apply for loans from the State banks, and the government department in charge should assist the enterprise to improve production management for the purpose of overcoming operational losses. The enterprise may be declared bankrupt for continuous losses according to the Bankruptcy Law.
2.2.3 Rural Household Production Units

In the rural sector of the economy the system of three-level public ownership (people's commune, production brigade, production team) has been replaced by a system in which households are the basic unit of production. The relations between their households and the State are governed by a contract responsibility system. This system establishes a form of production responsibility by linking remuneration to output. Peasants obtain the right to use collectively-owned land by accepting a contract setting out, among other things, the agricultural tax to be paid to the State, the public welfare contributions to be paid to the local villagers' committee (or group) and the quantities and prices of the products to be delivered. The contract responsibility system now covers 98 per cent of all rural households. The system permits peasants to plan their own production in accordance with their contract and with market demand. Sales of agricultural products over and above the contracted quantities have increased from 45 per cent of the total agricultural and sideline production in 1978 to around 60 per cent in 1988.

With the abolishment of the system of the people's communes and the restoration of governments at township level, rural industries are coordinated and administrated by the Supply and Marketing Companies of Rural Industry. Specialized, individual peasant enterprises and rural household production units can directly enter the market. They may accept the State guidance plan (through economic contracts) or benefit from the market information provided by the competent departments of the Government.

2.2.4 Private Enterprises

In 1987, there were 15 million industrial and commercial households providing 20 million jobs. There were also 115,000 private enterprises with a total of 1.84 million employees. Individual households and private enterprises do not enjoy any privileges but in practice they tend to be very competitive and responsive to market changes.

A recent amendment of the Constitution provides: "The State permits the existence and development of the private economy under relevant laws. The private economy is a supplement to the socialist economy of public ownership. The State protects the legitimate rights and interests of the private economy and exercises guidance, supervision and administration over the private economy". According to Article 12 of the Provisional Regulations on Private Enterprises, which entered into force on 1 July 1988, private enterprises may engage, inter alia, in productive operations with respect to industry, building, transportation, commerce, catering, services, repairing and scientific and technical consultancy. According to Article 22 of the Regulations, private enterprises may establish Chinese-foreign equity and contractual joint ventures with foreign firms, enterprises and other economic entities or individuals to the extent permitted by the State laws and regulations. They may also engage in contracting for processing with imported materials, processing according to samples, assembling with foreign supplied spare parts, and in compensation trade.
2.2.5 Enterprises With Foreign Investment

Enterprises with foreign investment include Chinese-foreign joint ventures (equity joint ventures), Chinese-foreign cooperative ventures (contractual joint ventures) and wholly foreign-owned enterprises established within the territory of China. China's laws grant foreign investors management autonomy. For instance, Article 7 of the "Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment" specifies that "joint ventures shall have the right of autonomy in operation and management within the limits and scope stipulated by Chinese laws and regulations, agreements, contracts and articles of association of the joint venture. All the departments concerned shall provide support and assistance". Moreover, Article 11 of the "Law of the People's Republic of China on Wholly Foreign-owned Enterprises" specifies: "A wholly foreign-owned enterprise which conducts its operation and management activities in accordance with the approved article of association shall not be subject to interference".

Joint venture enterprises may make their own production and operation plans within the business scope and production scale stipulated by the joint venture contracts. They are free to decide whether to buy machinery, equipment and raw materials in China or from abroad. Such enterprises also have the right to directly export their products. The Government guarantees the right of autonomy of joint venture enterprises.

2.3 Chambers of Commerce

Enterprises have been permitted to establish chambers of commerce in different sectors on a trial basis with a view to improving management efficiency and exchanging market information. The chambers of commerce are voluntary associations, legally independent from the government and enterprises. The main functions of the chambers are to provide advisory services, facilitate the business activities of members and safeguard their common interests. They also act as a bridge between MOFERT and foreign trade enterprises.

In early 1988, preparations began for the establishment of five chambers of commerce in the following sectors: cereals, oils, foodstuffs, tea, native products, animal by-products; textiles, silk, clothing; light industrial, arts and crafts; metals, minerals, chemicals; machinery and electrical products. Foreign trade corporations and production enterprises with foreign trade rights voluntarily apply for participation in the relevant chambers according to their own business scope and are free to withdraw their membership.
2.4 Special Economic Zones and Open Coastal Cities

Since 1979, China has established a number of zones where special economic policies and flexible trade measures are applied. They include four Special Economic Zones (SEZs) (Shenzhen, Zhuhai, Shantou and Xiamen) and fourteen coastal cities (Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Nantong, Lianyungang, Shangai, Nigbo, Wenzhou, Zhanjiang, Guangzhou and Beihai), Hainan Province (also a SEZ) and three delta areas (Changjiang River delta, Zhujiang River delta and the triangular area of Xiamen, Zhanzhou, Quanzhou in southern Fujian Province), and recently opened Liaodong and Shandong peninsulas. With a population of 160 million, turning out one-third of the national industrial output, this coastal region has more autonomous power and enjoys greater flexibility in granting favourable treatment in the areas of foreign investment, transfer of technology and foreign trade. Enterprises in the SEZs and open coastal cities may engage in foreign trade more independently than enterprises in other areas of China. Foreign investors are granted more favourable treatment in the following respects:

(1) Equipment, instruments and workshop building materials, imported by foreign investors as part of their investment, are exempted from customs duties and the Consolidated Industrial and Commercial Tax. This also applies to imported raw materials, spare parts and packing materials designed for export production.

(2) A 15 per cent preferential enterprise income tax is levied on the income of joint ventures, cooperative enterprises or enterprises with sole foreign investment operating in the SEZs and economic and technological development zones of coastal cities. Legally acquired profits of foreign investors remitted abroad are exempt from income tax.

(3) A 15 per cent preferential income tax is applied, upon approval by the Ministry of Finance, to technology-intensive projects, or projects having overseas investment exceeding US$ 30 million and with a long lead time.

(4) A 15 per cent preferential enterprise income tax is applied, upon approval by the Ministry of Finance, to joint ventures, cooperative enterprises and enterprises with sole foreign investment operating in the coastal cities, whose operations or investments are in the fields of energy, communications and port construction.

The establishment of SEZs and other special economic areas is proposed by the State Council and approved by the National People's Congress. Experience gained from these special policies will gradually be applied in the interior areas. At present, there are no plans for the establishment of new SEZs or the extension of these reform policies to other areas of the country. However, China does not rule out the possibility of extending some of these policies to other parts of the country.
The operations and production of enterprises with foreign investment in SEZs are totally regulated by the market, not by plan targets. The State-owned enterprises in SEZs follow guidance plans, but mainly rely on the market in achieving plan targets. Of the total value of exports in the SEZs, the proportion under State guidance plans accounts for less than 15 per cent. In 1987, 5 per cent of China's foreign trade took place in the SEZs and 21.5 per cent in the Open Coastal Cities.

Real estate is leased in all SEZs on the same terms. At present, the practice of paid transfer of the right to use land occurs in six coastal cities, including Tianjin, Shanghai, Fuzhou, Xiamen, Guangzhou and Shenzhen, and in Hainan Province. In addition, the above province and cities have set up their own policies and rules on paid transfers of the right to use land. SEZs allow private ownership of buildings but not of land. The tax regulations set by the State for the SEZs are uniform. The regulations on patent, copyright, trademark and bankruptcy laws for State-owned enterprises applied in the SEZs are the same as those applied in the other parts of China. Shenzhen municipal government also has promulgated regulations governing the bankruptcy of enterprises involved in external business.

Hainan Province applies the same policies as the other SEZs with greater liberalization in the following respects:

(1) The scope of foreign investment is expanded, allowing foreign investors to engage in real estate transactions within designated areas and to develop mineral and other natural resources.

(2) More flexibility is given in respect of the mode of foreign investment. Foreign investors may not only establish enterprises, but may also invest through the purchase of stocks or bonds. They may also lease State-owned or collectively-owned enterprises or conclude management contracts with them.

(3) With the approval of the Hainan Government, certain goods subject to import restrictions may be imported for use within the Province.

(4) More flexibility is provided in the flow of goods, personnel and capital.

(5) Greater power of economic management is granted to the Province.

Since April 1988, the Chinese Government has further liberalized certain policies for the coastal areas by according them more autonomy as follows: foreign investment projects under US$30 million may be approved by provinces and municipalities themselves; the technological transformation of old enterprises through the formation of Chinese-foreign joint ventures or co-operative ventures is encouraged; the importation of raw materials for processing for export has been facilitated; and the entry and exit procedures for businessmen have been simplified.
3. IMPORT AND EXPORT REGIME

3.1 Foreign Trade Plans

3.1.1 Formulation of the Plan

Article 15 of the Constitution stipulates that the harmonious and coordinated development of the national economy should be ensured through the overall balancing of economic planning and market regulation. Among the main criteria for drawing up the foreign trade plan are the social and economic development needs of the country, the balance-of-payments situation and economic factors such as supply and demand, prices and competition in both domestic and international markets. China regards the import-export plan as an important means of macro-economic guidance.

The duration of the plan is one calendar year. It is drawn up according to the five-year plan for national economic and social development and in light of the medium and long-term foreign trade plans. The foreign trade plan contains the name, quantity and value of the main traded products. The products imported with retained foreign exchange are not covered by the import plan. The import and export products of foreign enterprises in China are also not included. The State does not formulate separate plan targets for the SEZs.

The initial contributions to the export plan are made by import and export corporations of various ministries, foreign trade corporations and production enterprises authorized to engage in foreign trade at levels of provinces, autonomous regions, municipalities directly under the Central Government and cities separately listed in the plan. After careful analysis of these contributions, MOFERT prepares a draft national export plan which goes first to the State Planning Commission for overall coordination and then to the State Council for examination. Finally, the draft plan is submitted to the Standing Committee of the National People's Congress as a part of the annual plan for the national economic and social development for approval. The State Planning Commission and MOFERT are responsible for implementation of the approved plan.

The initial contributions to the import plan are made by the enterprises and institutions at levels of ministries, provinces, autonomous regions, municipalities directly under the Central Government and cities separately listed in the plan. After an overall coordination of these initial contributions in accordance with the five-year plan for national economic and social development and the availability of foreign exchange, the State Planning Commission works out a national import plan and submit it first to the State Council for examination, and then to the Standing Committee of the National People's Congress as a part of the annual plan for national economic and social development for approval. The State Planning Commission and MOFERT are responsible for implementation of the approved plan.
3.1.2 Plan Targets

The totally mandatory foreign trade planning practised in the past has been replaced by a mixture of mandatory planning, guidance planning and adjustment through market forces (non-planning). Most products are now under guidance planning. Approximately 60 products are currently subject to mandatory planning, including steel, chemical fertilizers, petroleum, coal, grain, cotton and lumber.

Mandatory plan targets are orders of a legally compulsory nature imposed by the State. Mandatory plans thus must be fulfilled. Any amendment or adjustment is subject to approval by the competent departments. Under guidance plans, no compulsory targets for individual enterprises are established. These plans are implemented primarily through fiscal and regulatory means designed to induce enterprises to adjust their production to the plan.

Mandatory targets have been completely abolished in the agricultural sector and are playing a declining rôle in the industrial sector. Only large and medium-sized enterprises are subjected to mandatory plan targets. Of the 15 million enterprises in China, only about 8,000 fall into this category and of these only a small portion are presently subjected to mandatory targets. These enterprises are free to determine their production in accordance with market conditions after having fulfilled the targets assigned to them.

During the course of the reforms China has significantly reduced the scope of direct State intervention in production, commerce and distribution. The number of industrial products subject to mandatory production targets dropped from over 300 in 1978 to 60 in 1986; the number of capital goods and industrial inputs subject to the unified State distribution from over 250 to about 20; the number of products subject to planning by the Ministry of Commerce from over 180 to 22. Export products subject to mandatory planning are estimated to account in 1988 for roughly 30 per cent of total exports and those subject to guidance plans for 15 per cent, with the remaining 55 per cent no longer subject to any export plan. With respect to imports, products subject to mandatory planning in 1988 account for 20 per cent of total imports; for another 20 per cent of total imports, the import plan specifies only a certain amount of import values for particular purposes; and the remaining 60 per cent are not subject to any plan.

The mandatory product-specific targets in the export plan are generally quota targets setting out the maximum quantity that may be exported. Products subject to a mandatory export plan are mostly natural resources traded in bulk having an important bearing on the national economy and people's livelihood. Generally, the export plan targets are not allowed to be exceeded. The mandatory product-specific targets in the import plan set out a minimum import quantity. Such targets are limited to a small number of products that have an important bearing on the national economy.
When an unexpected development occurs with respect to production or the market, the State may readjust the planned import and export targets, including the mandatory targets. The import levels for raw materials and other inputs for the controlled industries are determined in accordance with the amount of inputs and outputs required by other industries and the balance-of-payments situation.

3.1.3 Implementation of the Plan

The foreign trade plan targets are determined by the Central Government according to different levels of economic and foreign trade development as well as the requirements of the national and local economies, and are allocated to the relevant national foreign trade corporations and the local governments for implementation. MOFERT supervises implementation of the plans through the laws and regulations promulgated by the State and through its own policies and administrative measures. MOFERT's rôle in the implementation of the plans is mainly one of monitoring and evaluation.

Mandatory import plan targets are assigned to the national foreign trade corporations. The State does not assign such targets to any production enterprises. The mandatory export plan targets are only assigned to the national foreign trade corporations concerned. The guidance export plan targets are assigned to foreign trade corporations and to the foreign economic relations and trade departments of local governments which in turn assign the targets to foreign trade enterprises at the provincial level. The foreign trade restructuring programme for 1988 provides that the provinces, autonomous regions and municipalities, foreign trade corporations and production enterprises authorized to engage in foreign trade undertake contractual obligations towards the State on export earnings, foreign exchange submission and efficiency targets. These targets are determined through consultation and are specified in the contracts. The targets accepted by the local authorities are implemented by local foreign trade corporations again on the basis of contracts.

Guidance plan targets are attained through changes in taxes, interest rates and the exchange rate, and increased investment in basic industries and infrastructures. Examples of economic levers to implement guidance plan targets include the application of differential interest rates on loans to promote construction in the energy, transportation and communication industries, and development of industries producing raw materials and other imports of particular products; a lower product tax on newly constructed power stations; and amendments to the construction tax to control the scale of investment.

In the field of agriculture, the State ensures the fulfilment of the guidance plan targets essentially by three means: first, the State improves the basic conditions for agricultural production, for instance by making agricultural inputs available, developing industries that produce fertilizers, pesticides, plastic films and other inputs into agricultural production and by promoting the use of advanced agro-technology; second, the State uses price incentives to influence the structure and level of agricultural production; and third, the State concludes purchase contracts
for important agricultural products, such as grain, cotton, edible oil and sugar plants and provides farmers with financial incentives (for instance, the sale of inputs at the State price or advance payments) to ensure the fulfilment of the contracts.

3.2 Exchange Controls Affecting Importation and Exportation

3.2.1 Foreign Exchange Plans

The State plan for foreign exchange receipts and expenditures is formulated by the State Planning Commission and approved by the State Council. MOPERT, the Ministry of Finance and the State Administration of Exchange Control (SAEC) participate in the process. MOPERT takes part in the policy-making discussion on the use or foreign exchange for import priorities. The provincial and municipal offices of SAEC control foreign exchange transactions for both central and local authorities. The Bank of China is the State-owned bank specialized in foreign exchange business. Other banks and financial institutions may also deal, with the approval of the SAEC, in foreign exchange business within their approved scope of business, subject to the control and supervision by SAEC and its branch offices.

The State objectives for use of foreign exchange are defined when the annual plan for national economic and social development is established. After the overall balance is established by the State Planning Commission, the foreign exchange plan is submitted to the State Council for approval and then incorporated into the national economic and social development plan and submitted to the National People's Congress for approval. Once approved, the plan is sent back to the various localities and the ministries through the State Planning Commission and SAEC for implementation. The State Planning Commission formulates the foreign exchange and expenditure plans according to the current official exchange rate. If the current year's official exchange rate is adjusted, the part of the plan which has not been implemented is subject to the newly-adjusted rate.

The SAEC is responsible for managing foreign debt and supervising borrowing abroad. The plan for the utilization of foreign funds is drafted by the State Planning Commission and approved by the State Council. Funds borrowed abroad are mainly used in the energy, transportation, communication and construction sectors, for imports of raw materials and for the development of exports. The debt service ratio is an important factor limiting foreign borrowing, but it is not the only factor. Currently, the State Planning Commission has set the maximum allowable debt service ratio at 15 per cent. The scope of China's borrowing of foreign capital has expanded in recent years. By the end of 1985, the outstanding foreign debt stood at US$ 15.8 billion. The figure for 1987 was almost double that of 1985.

3.2.2 Exchange Rates

China practices what it refers to as a managed floating exchange rate system. The Renminbi yuan (RMB) is a non-convertible currency. Its rate
of exchange is fixed and promulgated by SAEC. Factors taken into account by SAEC in deciding on adjustments of the official rate include the balance of international payments, the foreign exchange reserves, the price level of commodities, the rate prevailing in the foreign exchange swap centres, and the fluctuations in the values of other currencies. Currently, China has an official exchange rate and a market exchange rate. The official exchange rate is the main rate formulated and published by the SAEC. This rate was US$ 1 = 3.72 RMB on 1 November 1988. The market exchange rate is the price in the foreign exchange swap centres which is determined by buyers and sellers in light of supply and demand. This rate was US$ 1 = 6.63 RMB on 5 November 1988. The Chinese authorities consider that the gap between the two rates is a consequence of certain irrationalities in the domestic price system and that the co-existence of the two rates is a transitional situation. The official exchange rate will be adjusted in the future and the gap between the market rate and the official rate will be gradually reduced until a single exchange rate is established. When the official RMB rate is overvalued, exporters can obtain compensation by selling retained foreign exchange in the swap centres at market rates. China considers that such a practice is not an export subsidy.

China does not intend to peg the RMB to any particular currency nor to allow the free floating of the RMB exchange rate. In China's view, a transition to free convertibility could be considered only once a rational price system is established, the total supply and demand of the economy is balanced, and the balance of international payments is stabilized.

Since its last depreciation of 13.6 per cent on 5 July 1986, the official RMB exchange rate has undergone little change. In the last two years, China's balance of payments has improved and China's foreign exchange reserves have increased. At the same time, China's current account has been in deficit, the increase in foreign exchange reserves resulting largely from foreign capital inflows.

3.2.3 Foreign Exchange Allocation Mechanisms

Retention System. In 1979, China adopted a foreign exchange retention system. Under this system, the State grants foreign exchange quotas to local authorities, departments and State enterprises in proportion to the amount of their sales of foreign exchange earnings to the State. The foreign exchange earned by State-owned enterprises must be sold to the State. After each sale, the State allocates the foreign exchange quota to the State enterprise according to the retention ratio of foreign exchange determined by the State. The enterprises can then open non-interest bearing foreign exchange retention quota accounts at SAEC or its local offices. The foreign exchange quota accounts are not foreign currency accounts. They merely determine the amount of foreign exchange each enterprise is entitled to obtain from the State. They are expressed in US dollars. Enterprises may use their retained foreign exchange to purchase imports for their own use or may sell it freely in the foreign exchange swap centres at market rates. They may purchase foreign exchange within the quota limit through banks authorized by SAEC to handle foreign exchange
transactions. No restrictions are imposed on the use of these funds, though the accounts are subject to examination by SAEC offices and the amount of withdrawals must not exceed the account balance.

Users of foreign exchange are required to submit a written application to SAEC, indicating the quota account number, the amount and currency to be used, and the purpose of the transaction. The foreign exchange allocation document does not specify the purchase price, ceiling or floor price, brands or specifications, or country of origin. In the case of a product under the State plan, the quantity must be specified in the document. In all other cases, no quantity is specified. The application will be accepted, and a foreign exchange certificate will be issued, as long as the amount to be used does not exceed the balance in the account. A period of two or three days is required to complete the procedures.

Under the current retention scheme, 75 per cent of the foreign exchange earnings within the contracted targets are submitted to the central authorities, 12.5 per cent is retained by the foreign trade enterprises, and another 12.5 per cent is reserved for the local government. For the additional earnings in excess of the contracted targets, the central authority takes 20 per cent, the rest is reserved for the foreign trade enterprises and the local governments. For the three experimental sectors of light industries, arts and crafts, and clothing, 30 per cent of within-target earnings is submitted to the central authority, 70 per cent is retained by the enterprises and local governments. For above-target earnings, 20 per cent is handed over to the central authorities, while 80 per cent is retained. For machinery and electrical products, 35 per cent of within-target earnings is surrendered to the central authority, 65 per cent is retained by the enterprises and local governments; 100 per cent of the above-target earnings is retained. Full retention is applied in the SEZs of Shenzhen, Zhuhai, Shantou, Xiamen and Hainan Province, and for enterprise groupings in the automobile and electronic sectors. The coastal provinces apply the general ratios of retention applicable to the interior areas of China. Provincial authorities are free to reduce their own shares in favour of local foreign trade enterprises, but they cannot reduce the share of enterprises. When foreign trade corporations act as export agents for production units, 12.5 per cent of the retained foreign exchange goes to the production units and 12.5 per cent goes to local governments.

China expects that the percentage of foreign exchange which may be retained by enterprises will be raised gradually. Along with the expansion of exports, the percentage will be raised in labour-intensive and export-oriented sectors. For local governments, the rate of foreign exchange retention will be reduced. Rural production units may also retain foreign exchange. In determining the rate of foreign exchange retention, the State takes account of the needs of local governments and enterprises. Local governments are given a percentage equivalent to that retained by the foreign trade enterprises. The provincial governments have the authority to adjust retention rates within the levels set by the Central Government for the provinces.
Foreign Exchange Accounts and Loans. For joint Chinese-foreign and other enterprises with foreign investment, foreign exchange deposit accounts are opened in banks authorized to handle foreign exchange business. No foreign exchange quota is involved. If State-owned, collectively-owned enterprises, or enterprises with foreign investment wish to open bank accounts abroad, they have to obtain the approval of SAEC or its local offices.

Domestic enterprises may establish foreign exchange accounts with local banks subject to the approval of SAEC or its branches. Generally, foreign exchange accounts may only be opened for those enterprises which must maintain foreign exchange for their operations. Chinese enterprises and residents are not allowed to borrow foreign exchange from each other. At present, domestic banks provide services for lending foreign exchange to export production enterprises, but not to residents. The interest rate of foreign exchange borrowing is determined at present by the Bank of China in light of the international market and the duration of the deposit.

When enterprises intend to acquire advanced foreign technology and/or import equipment, raw materials or spare parts, they may have access to foreign exchange loans from a Chinese bank so long as they can guarantee repayment by earnings from the export of their products. There are two categories of loans: working fund loans and fixed term loans. The interest rates are set with reference to international rates. Foreign trade corporations do not use foreign exchange loans. If they need to import raw materials for re-export after processing, a designated amount of foreign exchange is allocated for their use. After export, the earnings are paid back to the foreign exchange circulation account for future use.

Foreign Exchange Swap Centres. Under the retention system, some enterprises may have a surplus in the foreign exchange quota accounts while others may be in need of foreign exchange. Direct dealings in foreign exchange are not allowed. However, so as to enable enterprises with a foreign exchange surplus to sell their retained surplus to enterprises in need of foreign exchange, foreign exchange swap centres were established in 1988 in provinces, autonomous regions, municipalities, SEZs and major coastal cities. There are currently over 40 centres in China, including a national centre in Beijing, 5 centres in the SEZs and 14 centres in the open coastal cities.

The foreign exchange swap centres are subject to the guidance and supervision of SAEC. SAEC has drawn up unified regulations on foreign exchange adjustment, which will be published after a period of experimental application.

State-owned and collectively-owned enterprises, as well as enterprises with foreign investment, can all buy or sell foreign exchange quotas in the foreign exchange swap centres. Enterprises with foreign investment and other enterprises conduct their transactions in the centres on an equal footing.
Residents in the SEZs and some coastal cities are allowed to sell their foreign exchange through foreign exchange swap centres. This measure, now implemented on a trial basis, may in the future be applied in other parts of the country. Foreign exchange holdings allocated by the State under mandatory plans and those derived from non-trade foreign exchange income may not be traded in the swap centres. Also, at this stage, China's private enterprises are not permitted to participate in the swap centres.

Foreign exchange transactions between different foreign exchange swap centres are permitted across provinces, autonomous regions or municipalities. At present, the Government does not intervene in the activities of the centres to influence the foreign exchange swap rates. However, the People's Bank of China may intervene when abnormal fluctuations in such rates occur.

The daily foreign exchange swap rate is published at the local foreign exchange swap centres. No ceiling rate is stipulated. Due to market imperfections, the rates differ slightly among provinces, autonomous regions, municipalities and SEZs. The rate in the SEZs and coastal cities is somewhat higher than that in the inland cities. The rates are determined by buyers and sellers according to the supply and demand of foreign exchange. Between 31 October and 5 November 1988, the transaction price was US$ 1 = 6.63 RMB on average. The centres also permit trading in foreign exchange. The currencies that may be traded in the centres are the US dollar, British pound, German mark, HK dollar, Japanese yen and French franc. The centres collect fees from both the buyer and seller at a rate of 0.15 per cent of the value of the transaction in RMB, with a minimum charge of 10 RMB and maximum charge of 10,000 RMB.

In 1987, the total value of the transactions in the centres amounted to US$ 4.2 billion, of which US$ 330 million represented transactions between enterprises with foreign investment. For the first half of 1988, the volume was US$ 2.4 billion.

The Chinese authorities consider that the expansion of the foreign exchange swap centres and the flexible approach to foreign exchange rates make the exchange rate of RMB more responsive to market forces and that the purpose of the foreign exchange swap centres is not to maintain a dual exchange rate.

3.2.4 Foreign Exchange Balancing Requirements

The net profits which foreign investors receive from Chinese-foreign contractual joint ventures may be entirely remitted abroad from the foreign exchange deposit accounts that the joint ventures maintain with the banks. Foreign investors who set up enterprises in SEZs are allowed to remit their profits either outside China through their foreign currency accounts or to other areas of China for reinvestment purposes. Chinese enterprises are allowed to remit their profits derived from their operations in SEZs to other areas of China, but not outside China.
Both joint Chinese-foreign and wholly foreign-owned enterprises are subject to foreign exchange balancing requirements, according to which their foreign exchange earnings must cover their foreign exchange expenditures and profit remittances. The State does not impose any direct requirement to export. However, the balancing of the foreign exchange accounts is largely achieved through exports. Once they have balanced their foreign exchange accounts through exports, enterprises with foreign investment may sell their remaining output in the Chinese market. To help enterprises with foreign investment balance their foreign exchange accounts, the State allows the sale of foreign exchange against domestic currency by enterprises with a foreign exchange surplus to those with a shortage. These transactions are made under the supervision of the foreign exchange administration authorities at foreign exchange swap centres at rates determined by supply and demand. In order to balance their foreign exchange accounts, foreign investors may also reinvest their profits in domestic currency in export-oriented projects, sell their products to domestic users in foreign currency provided their transactions are approved by SAEC or its branch offices, or purchase with domestic-currency goods not subject to export controls and sell these goods outside China upon approval of MOFERT.

### 3.3 Restrictions on Importation and Exportation

#### 3.3.1 Generally Applicable Import and Export Restrictions

China prohibits the import of certain commodities, including various types of weapons, ammunition and explosives; narcotic drugs, poisons, obscene materials; and foodstuffs, medicines, animals and plants that are inconsistent with China's food, medical, materials and plant standards. China also prohibits the export of narcotic drugs, poisons, materials containing State secrets, precious and rare animals and plants. China considers that these prohibitions are imposed for purposes enumerated in Article XX of the General Agreement.

#### 3.3.2 Import and Export Licensing

China's import and export licensing system was created in 1951. After 1956, China's foreign trade was exclusively handled by State-run foreign trade corporations under the then Ministry of Foreign Trade and all foreign trade corporations conducted their business in accordance with import and export plan targets assigned by the Ministry. In those years, the import and export licensing system practically stopped functioning. Since China's adoption of the policy of opening to the outside world in 1979, the diversity and number of enterprises engaging in foreign trade has steadily increased. China therefore resumed the application of the import and export licensing system in August 1980.

MOFERT is the department exclusively responsible for administering the licensing system. It may authorize the departments of foreign economic relations and trade at the provincial level or the special commissioner offices located at the main ports to issue licenses for some import or export products within their respective administrative areas.
Import Licensing System. In 1984, the State Council promulgated the "Interim Regulations on Licensing System for Import Commodities" and MOFERT and the Customs General Administration issued "Detailed Rules for the Implementation of the Interim Regulations on Licensing System for Import Commodities". The Interim Regulations are uniformly implemented throughout China. According to the Chinese authorities, the import licensing system ensures that the limited foreign exchange resources are used for imports necessary for national economic development and that domestic industries are protected. In 1987, of the total import value of US$ 43.24 billion, imports subject to licensing represented 43.7 per cent, covering US$ 18.9 billion. MOFERT decides which products require import licenses on the basis of supply and demand conditions, domestic production and foreign exchange earnings.

The Chinese import licensing system is administered without discrimination among countries or regions. Quotas representing the total amount of permitted imports are not fixed. Mandatory plan targets for imports set the minimum amount of imports to be achieved and do not constitute global import restrictions. For the products subject to guidance plans, licenses are issued according to the guidance targets.

As of July 1988, China applied import restrictions to 53 product categories, the value of which accounted for about one third of the total value of China's imports. These product categories are:

1. Steel
2. Billets of steel
3. Scrap steel
4. Scrap vessel
5. Natural rubber
6. Timber
7. Plywood
8. Wool
9. Man-made fibres
10. Wood pulp
11. Petroleum oils
12. Sugar
13. Monomers of man-made fibres
14. ABS resin
15. Synthetic rubber
16. Polycarbonate
17. Sodium cyanide
18. Southern Chinese medicine
19. Carbonate soda
20. Television kinescope
21. Motorvehicles
22. Key parts for vehicles
23. Crane lorries
24. Civil aircraft
25. Open-end spinning machines
26. Electronic microscopes
27. Electronic colour scanners
28. X-ray tomographic scanners
29. Electronic computers
30. Audio and video tape duplicating machines
31. Video cassette recorders
32. Duplicating machines
33. Air conditioners
34. Disinfectants, insecticides, fungicides, herbicides and like products for agricultural use
35. Tobacco products
36. Filtertips
37. Acetate tow
38. Coffee and coffee products
39. Cobalt and cobalt salt
40. Vehicles tyres
41. Demolition chemicals and equipment for civil use
42. Fabrics of man-made fibres
43. Garments of man-made fibres
44. Refrigerators
45. Washing machines
46. Radio cassette recorders
47. Television sets
48. Motorcycles
49. Key parts for motorcycles
50. Cameras
51. Camera bodies (without lens)
52. Watches
53. Production and assembly lines (34 items)
MOFERT or its authorized local agencies issue import licenses on the basis of justifications given by the applicants and a certification by the competent authorities concerning the production of like products. Licenses are issued to foreign trade corporations and end-users taking into account their registered scope of business. Enterprises requiring imports of small quantities of urgently needed goods may be granted import licenses even if the imports are outside their registered scope of business. Licenses for 14 products are issued by MOFERT; for 39 products they are issued by MOFERT-authorized local economic and trade bureaus. Two to three days are required to process license applications. The licenses may not be traded, exchanged or sold. The cost of import and export licenses is borne by the license issuing department. A small fee is charged to the applicants. Import licenses are valid for one year and, when necessary, the validity can be extended for a limited period, usually not more than six months. At present, no consideration is being given to the auctioning of licenses. Among the 53 products now subject to import licensing, 46 can be imported by provincial foreign trade corporations within their registered scope of business. Only a few products subject to import licensing, such as steel, timber, oil, sugar, rubber and man-made fibres, may be imported only by the foreign trade corporations designated by MOFERT. However, for these products, MOFERT may grant import licenses to local foreign trade corporations in light of requirements of the provinces.

Ministries of the State Council and their subordinate units also need licenses for imports. The competent departments shall apply for licensing at MOFERT. Special commissioner offices of MOFERT in Guangzhou, Shanghai, Tianjin and Dalian issue some import licenses to departments within their respective administrative areas. Similarly, the foreign economic relations and trade bureaus of various provinces, autonomous regions and municipalities directly under the State Council are responsible for issuing some import licenses. The licenses for nine items - automobiles, TV sets, computers, duplicating machines, chemical fabrics, chemical fibre monomers, chemical fibres, rubber and timber - are issued by MOFERT.

Applicants must submit application letters signed and stamped by officials at or above the department or bureau level together with import certificates, including certificates approving the import by the competent departments and/or industry-specific approval departments under the State Council. All applications must be accompanied by a foreign exchange certificate issued by the foreign exchange administration authorities. Importers of goods listed in the State import plan (together with the quantities and the users) may apply for and obtain import licenses with the documents approving the planned import, without going through the industry-specific approval departments. When importing products for approved projects utilizing foreign investment and imported technology or equipment, the importer may request the import license directly from the license-issuing organ. Chinese-foreign equity joint ventures and wholly-owned foreign enterprises may be exempted from the import license requirement in respect of goods used for export production. These enterprises are also subject to fewer formalities when the license applications relate to the construction or expansion of plants.
**Export Licensing System.** The export licensing system is administered in accordance with the "Interim Procedures for the Export Licensing System". In 1987, products under export licensing accounted for 55 percent of the total value of Chinese exports. As of July 1988, the total number of products subject to export licensing was reduced to 159. For some of these products the licenses are issued by MOFERT or the special commissioner offices of MOFERT; however, for the majority of the products, the provincial authorities issue the licenses. According to the Chinese authorities, products are subjected to restrictive export licensing to take into account the quota obligations in bilateral and multilateral agreements, the capacity of foreign markets and the need to avoid indiscriminate exports. Some products are placed under export restriction because they are essential to the national economy and people's livelihood.

The application for an export license must be submitted to MOFERT and be accompanied by documentary evidence, such as documents of approval for the establishment of the enterprises, export contracts and letters of credit. The procedures are the same for all export destinations. The decision on the request for an export licence usually takes three to five working days. Export licenses are valid for six months; they may be extended for a period of two months upon request. A small fee is collected for each licence.

Enterprises with foreign investment engaged in exporting products not produced by themselves must obtain export licences if the products are subject to licensing. If the products are not subject to licensing, customs clearance will be given after examination has been made by Customs on the basis of contracts and other relevant documents.

### 3.3.3 Import Substitution Regulations

There are no provisions specifically requiring import substitution in China's licensing regulations. The State nevertheless encourages the purchase of like products produced domestically (whether by domestic firms or foreign-owned firms) when such products are available and satisfy user requirements. A list of import substitution products is established by China's industrial sectors to encourage domestic users to buy products which can be manufactured and supplied domestically. In the view of the Chinese authorities, this practice does not constitute a mandatory import restriction.

The 1987 regulation of the State Planning Commission on measures for the substitution of importation by products of Chinese-foreign joint and cooperative ventures is intended to assist the development of production in China. The products of such enterprises must be exported or sold domestically according to the ratios stipulated in the contracts between the Chinese government and the foreign investors. The enterprises are furthermore required to achieve a balance of their foreign exchange accounts. Where such products meet their needs, domestic users are encouraged to buy, with foreign exchange, the products of some enterprises with foreign investment experiencing difficulty in achieving exports.
3.4 Customs Tariffs and Other Charges on Importation and Exportation

3.4.1 Legal Basis and Principles of China's Tariff Policy

The "Regulations on Import and Export Duties" and the "Customs Import and Export Tariff" took effect in March 1985. Amendments to the Regulations were made in September 1987. Amendments to the tariff schedule were made in April, August and December 1986, in June 1987 and in February, May, July, September, October and November 1988.

The main purpose of the Customs Tariff is to regulate importation and exportation; none of the charges imposed on imports serve primarily to raise revenue. The Chinese authorities consider that the import tariff, as a significant component of the price of imports, plays an important rôle and that this rôle will become increasingly important in regulating imports and in promoting and protecting domestic production. The Chinese authorities consider that their tariff policy furthers the opening of the Chinese economy to the outside world, encourages exports, promotes the import of necessities and protects and improves the development of the national economy.

The basic principles for establishing duty rates are as follows:

(1) Duty-free or low duty rates are applied to those imported goods which are needed for the national economy and the people's livelihood but cannot be produced or sufficiently supplied domestically.

(2) Import duty rates on raw materials are generally lower than those on semi-manufactured or manufactured products.

(3) For parts or components of machinery, equipment and instruments which cannot be produced domestically, or the quality of which is not up to standard, the import duty is lower than the duty on complete products.

(4) Higher duty rates are applied to those products which can be produced domestically or which are not essential for the national economy and the people's livelihood.

(5) A still higher duty is applied to imported products, the equivalent of which can be produced domestically and which need protection.

(6) The majority of products are free of export duty.
The Tariff Commission, of which MOFERT is a member, continuously considers proposals for amendments to the tariff schedule made by domestic production enterprises, users of imports and companies engaged in foreign trade. On the basis of such proposals, the Tariff Commission prepares amendments for approval by the State Council. Partial amendments may be approved directly by the Tariff Commission.

There are two columns of import duty rates: minimum rates and general rates. The minimum rates apply to imports originating in countries with which China has concluded trade agreements containing a most-favoured-nation clause, whereas the general rates apply to imports originating in the other countries. There is only one column of export tariff rates applied to all countries.

Products subject to import duties (including those subject to the import regulatory tax) accounted in 1987 for 64 per cent of total imports; the value of export products subject to export duties accounted for 1.6 per cent of total exports. The weighted average tariff rates (minimum rates) for the principal import product categories in China's foreign trade in 1987 were: 11.3 per cent for agricultural raw materials, chemical raw materials, metal and steel; 19.29 per cent for capital goods such as machinery; and 19.29 per cent for consumer goods such as foodstuffs.

There are nine items subject to export duties, all of which are raw materials having no import content. The nine products subject to export duties are eel fry, prawns, chestnuts, crude lacquer, tungsten ores, goat skins, crude antimony, raw silk, powder and waste of bones.

3.4.2 Tariff Classification and Structure

The tariff classification follows the Customs Cooperation Council Nomenclature (CCCN). The tariff schedule is divided into 21 sections, 99 chapters and 2,127 tariff headings and sub-headings, of which 2,072 are dutiable and 55 are duty-free. The minimum import tariff ranges from 3 to 150 per cent, divided into 17 grades, whereas the general import tariff ranges from 8 to 180 per cent, also in 17 grades. The percentages of classifications within the various grades are as follows: 12.9 per cent for the grades 0-9 per cent, 34.3 per cent for the grades 12-25 per cent, 26.1 per cent for the grades 30-50 per cent, 26.1 for the grades 60-100 per cent, 0.6 per cent for the grades 120-150 per cent. Normally, the minimum duty rate is one grade lower than the general duty rate. The export tariff rates range from 10 to 60 per cent in four grades.

Since the current customs tariff system has been applied for a relatively short period of time, the Chinese authorities consider that it would be difficult to change this system to the Harmonized System in the near future. However, the Harmonized System is being studied.
3.4.3 Customs Valuation

Chapter Three of the "Regulations on Import and Export Duties" contains the rules for customs valuation. Both import and export duties are ad valorem duties. The duty-paying value of goods to be imported is assessed according to the c.i.f. price, based on the normal transaction value verified by Customs. The c.i.f. price covers the price of the goods, packing charges, freight, insurance premiums and other service charges incurred prior to the unloading of the goods at the place of destination in the customs territory of the People's Republic of China. If, after examination by Customs, the transaction value of the goods to be imported cannot be ascertained, the duty-paying value is based on the c.i.f. transaction value of identical or similar goods previously imported from the same country or area. If such transaction value cannot be determined for the goods in question, the duty-paying value is assessed in accordance with the wholesale price of identical or similar goods on the domestic market after deducting the import duties levied and other taxes collected in the process of importation, business expenses and profits. In exceptional cases, the duty-paying value is assessed using other reasonable methods. The duty-paying value of goods to be exported is identical with the f.o.b. price of the goods, after deducting export duties. The f.o.b. price is subject to examination and approval by Customs.

3.4.4 Tariff Exemptions

The Customs Law provides that, in exceptional circumstances, temporary tariff reductions and exemptions may be granted by the General Customs Administration and the financial departments concerned. The Regulations on Import and Export Duties stipulate that the Customs authorities shall exempt from import duties products imported to process export products, according to the actual export volume of the processed products. Preferential tariff treatment is currently granted to imports of machinery and equipment used in foreign investment projects.

Duty reductions or exemptions are granted to imports and exports of the SEZs and other specially designated areas, to imports and exports for specific purposes, and to imported materials donated for public welfare undertakings. Imports by enterprises in the SEZs are under strict Customs control and generally cannot be sold in other parts of the country. In those cases where products that have been manufactured within the SEZs from duty-free and tax-exempted imported materials are sold into the interior parts of China, the import duties and the Consolidated Industrial and Commercial Tax (CICT) are levied retroactively. Because the SEZs are small both in size and volume of trade, China considers that the special measures applied in the SEZs in no way affect the function of tariffs as the major means of regulating trade throughout the country.

3.4.5 Import Regulatory Tax

The Import Regulatory Tax, imposed since July 1985, is a surcharge additional to the import tariff and not an internal tax. At present, 17 kinds of products, for which the tariff rates are considered to be too low to provide the required protection, are covered. These include passenger vehicles, motorcycles, colour television sets, mini-electronic computers, electronic calculators and woven fabrics of chemical fibres. The Chinese
authorities consider that the tax measure is only temporary but that its adjustment will depend upon the level of development of the domestic industry and the needs of the national economy. Currently, there is no intention to incorporate the Import Regulatory Tax into the tariff.

The product coverage, tax rates and duration of implementation of the Import Regulatory Tax are decided by the Tariff Commission. The weighted average rate of the tax in 1986 was 47 per cent, the highest rate being 80 per cent and the lowest 20 per cent.

Dutiable products imported into SEZs are subject to the Import Regulatory Tax. Products manufactured in or imported into the SEZs are generally restricted from entering into other parts of China. However, as noted above, when approval is granted for shipment into other parts of China, the customs duties, the Import Regulatory Tax and the CICT, except to the extent exempted or reduced, are retroactively levied on the imported components and materials contained in such products.

3.4.6 Charges for Services Rendered

China imposes no customs user fees.

Under the agency system, production enterprises without authorization to conduct foreign trade can import and export goods through foreign trade corporations by paying a service charge. The service charge is based on the value of the transaction, up to about three per cent of the contract value. China considers that the service charge, which is not treated as tariffs for budgetary purposes, does not constitute an indirect protection for domestic products.

3.5 Safeguard Measures

3.5.1 Anti-Dumping and Countervailing Duties

There is no specific legislation concerning anti-dumping and countervailing duties in China. China states that these matters are under consideration.

3.5.2 Emergency Action on Imports of Particular Products

Currently, there is no separate legislation in China providing relief to domestic producers from injurious imports.

3.6 Production and Export Subsidies

The State grants incentives and economic assistance to export-oriented enterprises in industry and agriculture as follows:

(1) Tax exemptions or drawbacks are applied to a number of export products.

(2) Preferential loans are granted to export-oriented enterprises with a view to improving the structure and quality of their export products. Enterprises producing machinery and electronic products are among those receiving such loans.
(3) Export-oriented enterprises with exceptional export performances are permitted to give bonuses to their employees.

(4) Exporting enterprises are allowed to retain a portion of the foreign exchange earned.

China considers that limited temporary economic assistance is necessary for the following reasons: in international markets, Chinese products are confronted with distorted prices, particularly in the agricultural sector; the official exchange rate for the RMB is not completely rationalized and differs significantly from the market rate; some of the internal taxes levied on China's export products are not entirely reimbursed; and the comparatively high prices for China's manufactured goods, as a vestige of the past pricing system, have not yet been adequately adjusted.

At present, economic assistance comes from Central Government revenue. The amount of assistance represents about four per cent of the total value of China's exports. China expects that the level of assistance will decrease gradually. China is making efforts to reduce the losses of some enterprises through the negotiation of efficiency targets; but there is no precise time-frame for the phasing out of economic assistance.

Joint ventures with foreign investment, whether established within the SEZs, the open coastal cities or in other areas of China, determined by MOFERT to be export-oriented or technologically advanced, are exempted from income tax on their profit remittances. An enterprise is considered to be an export-oriented enterprise if not less than 50 per cent of the total value of its annual production is exported and if it maintains a foreign exchange balance or surplus at the end of the year. To be considered as a technologically-advanced enterprise, the technology, processes and major equipment used by the enterprise must fall within the categories of priority projects as announced by the State, and must be both advanced and suitable. The enterprise must furthermore be engaged in the production of products in short supply in China or be capable of developing new or improved products or of increasing exportation or of facilitating import substitution.

For a period of up to five years, the income tax on profits of export-oriented and technologically advanced enterprises may be refunded if the profits are reinvested in the enterprise. After the expiration of the period for exemption of income tax, a further 50 per cent reduction of income tax may be granted to an enterprise using foreign investment if its exports reach 70 per cent its annual output value. The income tax is levied on the accumulated value of profits of the enterprises. The income tax rate on profits of joint ventures is 30 per cent, with an additional 10 per cent local tax.

For enterprises with foreign investment, the following imported goods are exempted from customs duties, the Consolidated Industrial and Commercial Tax and regulatory taxes: (1) equipment and machinery, spare parts and other materials used as capital input within the total investment value or as increased capital input; and (2) raw materials, accessories, components, spare parts and other articles used in the production of export products.
Enterprises with sole foreign investment in SEZs and open coastal cities pay a preferential rate of income tax at 15 per cent and are exempted from income tax on their profit remittances abroad. For domestic enterprises, the income tax rate on profits is 55 per cent. Enterprises in the SEZs which annually export more than 70 per cent of their products pay income tax at the lower rate of 10 per cent. Whereas export-oriented and technologically advanced enterprises may receive short-term loans from the Bank of China on a priority basis and at preferential rates, such loans are not available to enterprises with foreign investment.

Chinese enterprises, in remitting their profits derived from their operations in SEZs to other areas of China, must pay a retroactive enterprise income tax at a rate of 20 per cent. No restrictions are imposed on the use of the profits. If a Chinese-foreign joint venture in the SEZs establishes another joint venture elsewhere in China, such investment is deemed to be foreign investment only when the investment from the foreign partner accounts for no less than 25 per cent of the new joint venture.

Lower rates of income tax, ranging from 15 to 24 per cent, are applied in the cities and autonomous regions to attract foreign investment. Other tax reductions and tax holidays are determined in accordance with the generally applicable tax laws of China.

China encourages changes in the structure of its export market from primary products to manufactured and refined products. But the various incentive measures for export are, in principle, applicable both to primary products and manufactured products. State incentives and economic assistance to textile export-oriented enterprises are the same as those to other export-oriented enterprises.

The State also assists the agricultural sector. Peasants who have contracted to use land sell a portion of certain crops, such as grain and plant oil, to the State according to that contract. The remainder of their crops may be sold either in the market or to the State at market prices. If the market price is lower than the contracted price, the State purchases the products at a higher price to protect the interests of the peasants. As the State provides materials for agricultural production to the peasants at low prices, the contracted price is usually lower than the market price. In the past two years, the market price was 10 to 30 per cent higher than the contracted price.

4. TAXES AND REGULATIONS

4.1 Price Controls

4.1.1 Domestic Price Control System

There are presently three types of prices: the State price, the State guidance price and the market-regulated price. The State price is set by the price administration authorities and cannot be changed without the
approval of these authorities. The State guidance price is a more flexible form of pricing; it leaves scope for enterprises to take the market situation into account. There are various modalities of guidance. The price administration authorities stipulate either (a) the basic price and a floating range, or (b) rates of price differences, or (c) profit margins, or (d) a ceiling price and a minimum price. Enterprises can, within the limits of the guidance, make their own decisions on prices. As to the market-regulated prices, the enterprises are free to determine the prices in accordance with supply and demand to the extent permitted by generally applicable laws, regulations and policies. The products and services subject to State prices are those having a direct bearing on the national economy and the basic needs of the people. They include a limited number of important industrial and agricultural products, communications, telecommunications, electricity, transportation and other public services.

The products subject to State pricing presently include:

1. Purchase prices of agricultural products under State purchase contracts: rice, wheat, maize, rapeseed, cotton and tobacco.

2. Ex-factory prices of industrial products: cotton yarn, cotton cloth, cigarettes, salt, ferrous and non-ferrous metallic products, caustic soda, soda ash, sulphuric acid, hydrochloric acid, coal, electrical power, heating oil, natural gas and timber processed in State-owned forests.

3. Retail prices of consumer goods: flour, rice, maize, soya beans, edible oil and cotton cloth.

The enterprises assume responsibility for all profits and losses associated with State-priced products and services.

The products subject to State guidance prices presently include:

1. Purchase prices of agricultural products: live pig, timber from collective-owned forests, sheep wool, jute, kenaf, tea, musk, licorice root, cortex eucommiac, cortex magnoliæ.

2. Ex-factory prices of industrial products: household enamel ware, machine tools, machinery of general purpose, automobiles, most electronic products, and mining and refining equipment.

3. Retail prices of consumer goods: pork, tea, timber from collective-owned forests in Southern China, household enamel ware, and cotton shirts and bed sheets.

In formulating the State prices and State guidance prices, the following four elements are taken into account: the normal costs of production under efficient operations, the supply and demand situation, government policies and the prices of related products. The prices of industrial goods are determined by taking into account the average production costs, taxes and profits. In order to keep prices stable, the
State guidance price for industrial products is generally set somewhat lower than the market price, allowing for a reasonable profit. For goods and services subject to market regulation, enterprises are entitled to fix prices and charges in accordance with the State price guidelines, policies and regulations. But they are not allowed to fix monopolistic prices among themselves.

The purchase prices of agricultural products are determined by taking into account production costs under efficient operations in normal weather conditions, the agricultural tax and a reasonable profit margin. Not only the market situation is taken into consideration but also the interests of the producers and the ability of consumers to bear the price. The agricultural production costs include those of seeds, fertilizers, pesticides, the depreciation of agricultural machinery, irrigation and drainage, and manpower. In calculating the costs of inputs, such as chemical fertilizers, pesticides and farm machinery, the actual prices are taken into account, of which some are State prices, some are State guidance prices and others are market prices. The price of the products sold by farmers to the State through purchasing contracts (grain, cotton, etc.) is based on the State prices; any excess production can be sold at market prices. Wholesale prices are set on the basis of purchasing prices plus business costs of commercial departments in producing areas and reasonable profit margins. Retail prices are based upon the wholesale prices plus the price difference between wholesale and retail transactions, which consists of retail costs and profit. The prices of comparable imports and rates of service charges in foreign countries serve as important points of reference.

Agricultural products currently subject to supply rationing are grains (wheat flour, rice and corn) and edible oils. Taking into account the purchasing power of consumers, the retail price of these products is lower than the State purchase price paid to the farmers. The difference is covered by the State budget. The needs of urban residents that go beyond the rationed part of supply are supplied at market-regulated prices. There are differences in the prices of goods sold in different provinces. This is due to differences in supply and demand situations. For instance, in mid-January 1988, the price of steel rods was RMB 1,350 per ton in Shenyang, RMB 1,400 in Taiyuan, and RMB 1,540 in Shantou.

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 35 per cent in 1987; the portion under State guidance prices and market prices rose from 7.4 per cent to 65 per cent during the same period. Of the total value of retailed consumer goods, the portion subject to State prices decreased from 97 per cent in 1978 to 47 per cent in 1987. In the case of light industrial products, the decline was from 95 per cent to 45 per cent and in that of heavy industrial products, from 100 per cent to 60 per cent.

The Chinese authorities consider that the price system has gradually become more rational, providing more equitable market conditions for enterprises. However, they recognize that further adjustments are needed to achieve a completely rational price system. The Government's aim is to gradually establish a framework in which the State sets the price of only a few products and services and the prices for the overwhelming majority of products will be liberalized with a view to meeting the principle "the State regulates the market, the market guides enterprises". The pace of further price reforms will depend on fiscal, economic and social factors.
The price control system is administered by the Central Government and the local governments. Price administrative departments of provinces, autonomous regions and municipalities are empowered to adjust State prices and the State guidance prices in light of the changes in the cost of production, the market situation and State policies. Prices may vary from one region to another. If raw materials needed by production enterprises are in short supply because their State prices are too low, temporary prices higher than the nationwide State prices may be fixed by provinces, autonomous regions and municipalities.

4.1.2 Application of Price Controls to Imported Products

Only a small proportion of imports are subject to State pricing, set with reference to the prices of like domestic products. The State prices are the same for imported and domestic products, except for quality variations. The State prices for domestic products and the State prices for imported products are formulated and administered in the same manner even though the specific product coverage may vary.

When imported products under State pricing are sold in the domestic market at prices lower than the import price, the difference is borne by the State. At present, there are 28 import commodities for which the State provides import subsidies, namely: steel products, non-ferrous metals, fertilizers, wood pulp, timber, plywood, linear alkyl benzene, sodium triply phosphate, non-ionic surface active agent, tallow, coconut oil, cocoa beans, foodstuffs, pig iron, sulphur, cow hide, caustic soda, soda ash, glycerine oil, phosphate rock, butanol, zethyl hexanol, xylene, refined naphthalene, ortha nitrochloro benzene, aniline oil, dioxide titanium and agro-chemical intermediates. The elimination of price subsidies for these 28 imported products is expected to take place gradually in the course of price reform, for which there is no specific time-table at present.

An agency pricing system is largely applied in the import business of foreign trade corporations. Under this system, the domestic price of an import commodity is composed of the c.i.f. value, import duty, internal taxes, banking charges and commissions. The profits and losses resulting from the sales of imported products on the domestic market go to the importing enterprise. Currently, the volume of the imports handled under the agency pricing system by the foreign trade corporations accounts for 80 per cent of the total import volume.

Market regulation of prices is applied to countertrade products.

The prices for government services, railway transportation and postal services are the same for domestic and imported goods.
4.1.3 Application of Price Controls to Products Destined For Other Territories

In the case of export business carried out by foreign trade corporations on their own or jointly with production enterprises, price components include purchase price or production costs, transportation expenses, storage expenses, banking charges, export duty (when levied), a reasonable profit margin and the supply and demand conditions on the international markets. No maximum profit margin is set by the State.

In the case of export business entrusted through the agency system to foreign trade corporations, prices are determined on the basis of domestic costs, international market conditions and the commission charged by the foreign trade corporations.

In determining an export price, the foreign trade corporations first of all take account of domestic costs. The administrative organs of the Government do not interfere with the setting of the export prices by the corporations. Data on the costs of export products are compiled by the enterprises, not by government departments.

4.2 Internal Taxes and Regulations

4.2.1 Internal Taxes Levied on Products

Products are subject either to the Consolidated Industrial and Commercial Tax (CICT) or to the Product Tax and the Value-Added Tax. The coverage and rates for these two taxes are determined by the State Council; the taxes are administered by the Ministry of Finance. The Product Tax and the Value-Added Tax are applied only to domestic products whereas products of foreign enterprises, Chinese-foreign joint ventures and Chinese-foreign cooperative ventures are subject to the CICT. The product coverage of the Product Tax and the Value-Added Tax is almost the same as that of the CICT. The tax rates of a small number of products subject to the CICT are slightly different from the Product Tax and the Value-Added Tax for the same product. Where the corresponding CICT rates are higher, the Chinese authorities intend to reduce them to the level of the Product Tax and the Value-Added Tax.

4.2.2 Border Tax Adjustments

The Consolidated Industrial and Commercial Tax is levied on imported products by Customs at the customs entry points. The Product Tax or Value-Added Tax is levied on domestic goods at the production stage. Tax exemptions are granted for the products that are exported. The Product Tax or the Value-Added Tax levied on products sold by production enterprises to foreign trade corporations for export is reimbursed when the products are actually exported. Products exported by foreign investment enterprises are exempted from the CICT.
4.3 Local-Content Requirements

China's laws contain no express local-content requirement. However, participants in Chinese-foreign joint ventures in many cases assume contractual undertakings of export performance and local content. Moreover, enterprises with foreign investment are subject to foreign exchange balancing requirements (see section 3.2.4 above).

4.4 Technical Standards

The State Administration for the Inspection of Import and Export Commodities is the competent authority in charge of import and export commodity inspection. Quality control of domestic commodities is administered by the State Bureau of Technical Supervision. The State Council promulgated the "Regulations on the Inspection of Import and Export Commodities" in 1984, replacing the previous Provisional Regulations. According to the Chinese authorities, the new Regulations strengthen the inspection of import and export commodities and protect the legitimate rights and interests of the parties concerned with foreign trade.

The import and export commodity inspection bureaus in various parts of China, over which the State Administration has jurisdiction, and other inspection organizations designated and/or accredited by the State Administration, act as independent third parties conducting inspection of import and export commodities. At present, there are two types of independent inspection entities: The China National Import and Export Commodities Inspection Corporation, the only inspection corporation designated by the State Administration; and accredited laboratories, in charge of inspection of some products, mostly machinery and electrical products. Some of the laboratories have been accredited by international accreditation organizations. The establishment of foreign inspection agencies is not permitted in China. But foreign inspection agencies may send representatives to visit China to carry out technical exchanges or consultative activities.

In addition to compulsory inspection, the inspection bureaus also carry out inspections in accordance with contracts or on request. If importers or users detect quality problems, they can immediately request that an inspection be carried out by the local inspection bureaus and an inspection certificate be issued. The inspection bureaus also supervise the inspections of import commodities undertaken by the entities mentioned above.

The standards applied to imported products may be classified into two categories: (1) standards related to quality, quantity, weight and packing; and (2) standards related to safety, health, worker protection and environmental protection. In most cases, inspections are made in accordance with the relevant clauses of commercial contracts or, in their absence, in accordance with standards established in the exporting countries or pursuant to generally applied international standards. In the absence of either of the above, China's national standards are applied. China has increasingly adopted international standards. China has established such standards in the areas of safety, health, worker protection and environmental protection. These standards are re-examined every three to five years.
The competent departments in charge of production are responsible for proposing national standards. These departments solicit opinions from relevant manufacturers, users, sellers and scientific research institutes before submitting the standards to the State Bureau of Technical Supervision for promulgation. The standards for inspection methods are established by the State Administration. National sanitary standards are established by the Ministry of Public Health.

Special regulations have been promulgated for: the inspection of imported medicines and crude drugs; sanitary inspection and quarantine of foodstuffs; quarantine of animals and plants; calibration of weighing and measuring instruments; supervision and inspection of the safety of boilers and pressure vessels; and the surveying of ships, including offshore platforms, ship's main equipment, materials and containers.

China's plant quarantine regulations generally conform to the guidelines for plant quarantine practices and procedures of the International Plant Protection Convention, administered by FAO. China's "Law on Food Hygiene" defines the use of additives in food; it is applicable to both domestic and imported products. The national "Sanitation Standard for Additives in Food" is applied to all domestic and imported products. Procedures for introducing new additives require that an application with accompanying safety evaluation and specification be submitted, by the producers or users, to the China Food Additive Technical Committee for examination and then to the Ministry of Public Health for approval.

The State Administration in principle does not apply embargoes or reject imports for quality reasons. The decision to reject imports for quality reasons is made by the importer concerned in accordance with the contract concluded with the exporter. However, when the imported products do not comply with governmental safety or health standards, the State Administration, together with other relevant authorities, may decide to apply an embargo.

Compulsory inspection is applied to large-volume imports, products with frequent quality problems and safety or health-related products. The list of products subject to compulsory inspection by the Commodity Inspection Agency is drawn up by the State Administration. Currently, this list includes the following 18 products: corn, wheat, soyabean, cotton, jute, sisal, cellulosic fibres, synthetic fibres, natural rubber, paper, fertilizer, sugar, fish meal, furs and leather, wool, steel products, non-ferrous metal products, and boilers and pressure vessels. Following prevailing international practice, inspection of import and export products is carried out by statistical sampling or by inspecting a percentage of each consignment. Some commodities, such as scientific instruments, are inspected piece by piece (or set by set, or package by package). Generally there are no delays due to administrative reasons.
5. CHINA'S FOREIGN TRADE RELATIONS

5.1 Bilateral Trade and Payments Agreements

China has entered into bilateral trade agreements with over 90 countries and regions. Three main categories of trade agreements can be distinguished, as follows:

The first category are agreements which contain a most-favoured-nation clause and other general conditions for the conduct of trade. As of April 1988, China had concluded such agreements with the following countries: Albania, Algeria, Angola, Argentina, Australia, Austria, Bangladesh, Benin, Botswana, Brazil, Bulgaria, Burkina Faso, Burma, Burundi, Cameroon, Canada, Central African Republic, Chad, Chile, Colombia, Congo, Côte d'Ivoire, Cuba, Cyprus, Democratic People's Republic of Korea, Djibouti, Ecuador, EEC (including Belgium, Denmark, France, Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, United Kingdom), Egypt, Equatorial Guinea, Ethiopia, Finland, Gabon, Gambia, German Democratic Republic, Ghana, Guinea, Hungary, Iceland, India, Iraq, Jamaica, Japan, Jordan, Kenya, Kuwait, Lebanon, Liberia, Libya, Madagascar, Malaysia, Mali, Mauritania, Mexico, Mongolia, Morocco, Mozambique, Nepal, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Peru, Philippines, Poland, Romania, Rwanda, Sao Tomé and Principe, Senegal, Sierra Leone, Singapore, Somalia, Sri Lanka, Sudan, Sweden, Switzerland, Syria, Tanzania, Thailand, Togo, Tunisia, Turkey, United States of America, Union of Soviet Socialist Republics, Venezuela, Vietnam, Arab Republic of Yemen, People's Democratic Republic of Yemen, Yugoslavia, Zaire, Zambia, and Zimbabwe.

The second category are agreements which, in addition to the most-favoured-nation clause, provide for annual protocols of exchange of goods with indicative lists of commodities to be exchanged between the two parties. Commodities on the indicative list are determined through consultations on the basis of commercial considerations and according to the needs and capabilities of both countries. The countries with which China had signed such agreements as of April 1988 are: Ethiopia, Kenya, Tanzania, Burkina Faso, Cameroon, Côte d'Ivoire, Guinea, Nigeria, Equatorial Guinea, Liberia, Mauritania, Algeria, Sudan, Iraq, Morocco, Singapore, Cyprus, Iran, India, Bangladesh, Nepal, Pakistan, Sri Lanka, Afghanistan, Mexico, Chile, Ecuador and Brazil.

The third category are agreements which contain a most-favoured-nation clause and fix the quantity or value of specified commodities to be exchanged. For such agreements, a protocol of exchange of goods is signed annually. Countries with which China has signed such agreements include: Ethiopia, Sao Tomé and Principe, Ghana, People's Democratic Republic of Yemen, Thailand, Philippines, Iran, India, Turkey, Bangladesh, Pakistan, Soviet Union, Poland, German Democratic Republic, Czechoslovakia, Hungary, Bulgaria, Albania, Romania, Democratic People's Republic of Korea, Mongolia and Cuba. The agreements in this category provide for annual negotiations of protocols on the exchange of goods with a list of import and export products. Under the agreements, the government provides a forum
for the enterprises to conduct negotiations on specific transactions. The importers or end-users bear all costs of the imports; the government does not provide financial support. The volume or value targets for the products listed are fulfilled through contracts signed by foreign trade corporations of both sides according to commercial considerations. The prices of import and export products are determined through consultations in light of international market conditions; they are expressed in Swiss francs or US dollars. No tariff preferences are accorded to the imports stipulated in the protocols.

From 1978 to 1987, China's trade with the Soviet Union and the Eastern European countries, conducted under this third type of Agreement, represented on average 6.2 per cent of China's total foreign trade.

China also has concluded protocols on barter trade with the following African countries: Tanzania, Zimbabwe, Sao Tomé and Principe, Ghana, Algeria and Tunisia. The protocols set out the quantities of products to be exchanged. These transactions are based on the prevailing international market prices. The payments for barter trade products are settled, on an annual basis, through trade clearing accounts. If there is a trade imbalance, the debtor makes a cash payment. The import duties and licensing system apply to trade conducted through such clearing accounts. Of the total value of China's trade with developing countries, 99.75 per cent is on the basis of cash payment trade, 0.05 per cent under trade clearing accounts and 0.2 per cent on the basis of barter trade.

5.2 Goods Originating In or Destined For Hong Kong, Macao and Taiwan

For products originating in Hong Kong and Macao, customs duties are applied at rates equivalent to the rates levied on goods originating in countries enjoying most-favoured-nation treatment. The Tariff Commission will decide which tariff treatment will apply to products originating in Hong Kong after 1997.

Imports from Hong Kong and Macao are treated as if they were imported from abroad and import licenses must be obtained for goods under licence restriction originating therefrom. The Chinese authorities believe that it is too early to discuss the application of the licensing system to imports from Hong Kong and Macao after 1997 and 1999, respectively.

Quotas and licensing are applied to some products exported to Hong Kong and Macao, in particular fresh and frozen food products, live animals and poultry. The revision of the list of products subject to export restrictions to Hong Kong is under study. China indicates that export quotas to Hong Kong and Macao are allocated under the export licensing system according to the market capacity of Hong Kong and Macao and the export capabilities of Chinese provinces, autonomous regions and municipalities.
According to the Chinese authorities, Hong Kong and Macao Special Administrative Regions will continue to formulate their own economic and trade policies autonomously when China regains its sovereignty over Hong Kong and Macao in 1997 and in 1999, respectively. However, the economic and technical cooperation between the SEZs and the Hong Kong and Macao regions will be further strengthened. In its Communique of April 1988 to the GATT contracting parties, the Chinese Government declared that after 1997, Hong Kong will continue to undertake its obligations in GATT as a separate customs territory and separate GATT contracting party. The tariff bindings which Hong Kong has entered into will not be affected.

Direct imports from Taiwan are not subject to Chinese import duties. China considers that Taiwan is part of China's territory.

5.3 Trade with Adjacent Countries

China has border trade with Nepal, Burma, Pakistan, the Soviet Union and the Democratic People's Republic of Korea. China considers that this trade, both in the form of barter and cash payment, is of a negligible size. The traded goods are mostly of local manufacture and third-country currencies are generally not used for payment. With the exception of the special custom tariff between the Autonomous Region of Tibet and Nepal, border trade does not involve preferential treatment. In order to help the economic development of Tibet, a separate tariff with lower duty rates was established for imports from Nepal into Tibet.

5.4 Rules of Origin

The "Provisional Regulations of the Customs Administration on the Origin of Imported Goods" provide that, if an imported product is processed and manufactured in several countries, the country of origin of the product shall be the last country in which the product underwent substantial processing. Substantial processing is understood to mean processing which results in a change of the four-digit level tariff classification or in an added value (including all cost-related expenditures) exceeding 30 per cent of the total value. These origin criteria are applicable to all imported products. The rules of origin applied for statistical purposes are the same. However, for statistical purposes, Customs also records the countries of consumption and trading countries.
6. PUBLICATION AND ADMINISTRATION OF TRADE REGULATIONS

6.1 General Sources of Information

The Chinese authorities indicated that the following publications, among others, provide information on China's foreign trade system: "Almanac of China's Foreign Economic Relations and Trade"; "Guide to China's Foreign Economic Relations and Trade", edited by the Policy Research Department of MOFERT; "Statistical Yearbook of China", published by the State Statistical Bureau; "China's Customs Statistics", edited and published quarterly by the Customs General Administration; "International Trade", "International Economic Cooperation" and "China Foreign Trade", journals edited by the Institute of International Trade, the Institute of International Economic Cooperation of MOFERT and China Council for the Promotion of International Trade; the bimonthly journal "International Trade Issues", edited and published by the University of International Business and Economy; and "International Business" and "International Trade News", edited by the Institute of International Trade of MOFERT, both of which contain updates on the policies, laws and regulations relating to China's foreign economic relations and trade.

The rules, regulations and orders of the State Council relating to foreign trade are all published. So are the regulations issued by ministries and commissions. Such laws and regulations are available in the "Bulletin of the State Council" and the "Collection of the Laws and Regulations of the People's Republic of China". The administrative regulations and directives which affect foreign traders are also published in various newspapers and periodicals.

6.2 Foreign Trade Plans

China publishes its five-year plan of national economic and social development, which includes the development programme for imports and exports. The five-year plan is published in newspapers. Annual, medium-term and long-term plans approved by the National People's Congress are also published, including targets of key sectors of national economic and social development.

China however does not publish its annual import and export plans nor modifications of these plans. The detailed targets established in the import and export plans are regarded as business secrets. The foreign exchange earning targets negotiated with the provinces and municipalities are also not published. The State Statistics Bureau publishes information concerning the implementation of the import and export plans, as well as the annual report of statistics.

6.3 Exchange Controls Affecting Importation and Exportation

Since the "Provisional Regulations for Foreign Exchange Control of the People's Republic of China" were promulgated in December 1980, China has published more than 20 specific rules implementing these regulations, such
as the "Regulations for Foreign Exchange Concerning Foreign-Invested Enterprises, Foreign Banks and non-Bank Financial Institutions" and the "Regulations for Monitoring External Debt and External Guarantees". These rules are published in the State Council Bulletin.

6.4 Restrictions on Importation and Exportation

MOFERT publishes its import and export regulations, as well as the quantity of products to be licensed for export in the newspaper "International Business" on a timely basis. Changes in criteria for issuing import and export licenses are also published in "International Business" and in the "Almanac of Foreign Economic Relations and Trade".

The items of import commodities restricted by the State are made public and readjusted in a unified way by MOFERT. MOFERT readjusts import restrictions in light of the availability of foreign exchange and changes in domestic production and in the market. These adjustments are duly made public in "International Business" and the "Almanac of Foreign Economic Relations and Trade".

6.5 Customs Tariffs and Other Charges on Importation and Exportation

China's customs laws and regulations, import and export duty rates, and customs procedures are published in the "State Council Bulletin" and in the press, and are available upon request. The procedures concerning the application of duty rates, customs value and duty determination, draw-back and duty recovery, as well as the procedures concerning duty exemptions and reduction, are also published. The State Statistics Bureau publishes quarterly customs statistics, calculated according to country of origin or consumption. The Customs General Administration publishes trade figures on the basis of four-digit CCCN headings.

The Regulations on Import and Export Duties provide that in the case of disputes over tariff classifications or customs valuation, the duty payer can demand a re-examination of the matter by the local Customs office and, if the matter cannot be resolved in this way, appeal it to the Customs General Administration and, finally, to the People's Court.

Implementation of the Import Regulatory Tax is subject to advanced notice. For the settlement of disputes over payment of the tax, the appeal procedures for Customs import duties apply.

6.6 Internal Taxes and Regulations

The rules and regulations applied by the China Import and Export Commodity Inspection Corporation and the Quality Administration are
published in the press and are available on request. The list of products subject to compulsory inspection is published by the State Administration.

China's national standards are published in the "National Standards Catalogue of the People's Republic of China", the journal "Standardization of China" and the "New Standards Catalogue".

According to the Commodity Inspection Regulations, if the parties involved in foreign trade object to findings regarding the inspection of import and export commodities, they may apply for reinspection. Thereafter, they may make a further appeal to the State Administration. The parties may also appeal to an arbitration body in accordance with an arbitration clause in the contract.

6.7 Governmental Agreements Affecting Trade Policy

The bilateral trade agreements listed in Section 5.1 above and protocols on the exchange of goods negotiated under them are published in "The Treaty Series of the People's Republic of China".

6.8 Enterprises Engaged in Foreign Trade

The "Directory of China's Foreign Economic Relations and Trade Enterprises" and "China's Foreign Trade Corporations and Organizations" are two publications which identify the foreign trade corporations and other enterprises in China engaged in foreign trade. The "Directory", compiled by MOFERT, is published in English and subject to annual updating.
7. CHINA'S FOREIGN TRADE REGIME AND THE GATT

China originally assumed contracting party status by accepting the Protocol of Provisional Application, dated 30 October 1947. China requests the resumption of its original membership but declares itself ready to negotiate the rights and obligations resulting from its resumption. The Protocol of Provisional Application exempts measures taken pursuant to mandatory legislation in force on 30 October 1947 from the obligations under Part II of the General Agreement. China requests that the date relevant for the existing legislation clause in the protocol on China's status as a contracting party be the date of that protocol rather than 30 October 1947. The Chinese authorities explain these requests as follows: The founding of the People's Republic of China in 1949 did not alter China's status as a subject of international law. The deposed Chiang-Kai Shek regime ceased to represent China as from 1 October 1949. The withdrawal from GATT in the name of China by the authority in Taiwan in 1950 was therefore not legally valid. The United Nations, in a resolution adopted in October 1971, recognized the representatives of the Government of the People's Republic of China as the only legitimate representatives of China, and the GATT, on the understanding that it should generally follow decisions of the United Nations on essentially political matters, expelled the observer from Taiwan in November 1971. For these reasons, China is both legally and politically justified in requesting a resumption of its original membership. However, given the considerable changes that have taken place during the suspension of China's relations with the GATT and given China's readiness to negotiate the substantive rights and obligations, a non-retroactive approach to the changes during the period of suspension is appropriate and in the interest of the contracting parties concerned.

The Chinese authorities consider that China has at present an adequate basis and full capability to comply with GATT obligations and to exercise GATT rights, and that a commitment to a time schedule for the accomplishment of economic reforms is therefore not needed. In their view, the controls on importation, such as the custom tariff, the Import Regulatory Tax and the import licensing system, serve to protect domestic industries and the external financial position; these measures are therefore justified by Article XVIII of the General Agreement. The Chinese authorities recognize that the temporary economic assistance which the Chinese government grants to export enterprises is a subsidy within the meaning of the General Agreement. After China resumes its membership, they intend to comply with the provisions of Article XVI when giving economic assistance to producers of export products.

The Chinese authorities consider that China's bilateral trade and payments agreements do not provide for preferences inconsistent with the principles of the General Agreement. Upon resuming its contracting party status, China will review these agreements in light of the relevant GATT provisions.

The Chinese authorities are of the view that the production enterprises with foreign trade rights and the foreign trade corporations are not state-trading enterprises within the meaning of Article XVII of the General Agreement merely because they are owned by the State.
China is a member of the International Monetary Fund and is availing itself of the transitional provisions of Article XIV of the Fund's Articles of Agreement. China considers its system of exchange controls to be consistent with the Fund's Articles of Agreement and consequently covered by Article XV:9 of the General Agreement.

The Chinese authorities consider the non-publication of the annual import and export plans to be consistent with Article X of the General Agreement because these plans contain confidential commercial information, the disclosure of which would prejudice the legitimate commercial interests of the State and the enterprises concerned.

The Chinese authorities have studied the Anti-Dumping, Subsidies, Customs Valuation and Import Licensing Agreements. A decision whether or not to accept these agreements is still under consideration. The Chinese authorities have also studied the Agreement on Technical Barriers to Trade and declared that they consider it possible that China might sign that agreement at an appropriate time. Adherence to the Agreement on Government Procurement is presently not being considered.

According to Chinese Law (Article 142 of the General principles of Civil Laws, Article 6 of the Laws on Economic Contracts with Foreign Counterparts), all international treaties are part of the domestic law. If there is a conflict between domestic law and the provisions of an international treaty, the provisions of the international treaty shall be applied unless the provisions are those on which the People's Republic of China has announced reservations. As stipulated in the Constitution of the People's Republic of China (Article 67), the Standing Committee of the People's Congress of China has the power to alter or annul those local regulations or decisions of the organs of state power of provinces, autonomous regions and municipalities directly under the Central Government that contravene the Constitution, the laws, administrative rules or regulations of the Central Government. The Constitution also authorizes the State Council to alter or annul inappropriate decisions and orders issued by local organs of state administration at various levels (Article 89). The Chinese authorities are of the view that these features of the Chinese legal system will ensure an effective and uniform implementation of the obligations resulting from China's resumption of GATT contracting party status.