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TRADE POLICY REVIEW

Report by

CHINA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by China is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on China.

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I. INTRODUCTION

1. Since the last trade policy review in 2010, in the face of the complex and volatile external environment and new circumstances and developments in economic situations at home, the Chinese Government, centered on the goal of maintaining strong, sustainable and balanced growth, has accelerated the transformation of economic development pattern, stepped up efforts to expand domestic demand, promoted structural adjustment, and continued deepening the reform and expanding opening up. The national economy continued to develop at a rapid yet steady pace, making important contributions to the world economic recovery and development.

2. The development of China's foreign trade and cross-border investment saw a new trend. China's opening up began to shift from being a predominantly export-oriented economy and relying heavily on inward foreign direct investment to putting equal emphasis on exports and imports as well as on both attracting foreign capital and making outward investment. The Chinese Government has proactively promoted the change of the trade development pattern, intensified efforts to optimize the use of foreign capital, continued to implement the strategy of "going global", and paid more attention to balance and sustainability in the development of both trade and investment.

3. The Chinese Government continues to develop foreign economic and trade relations in an all-round way. China is willing to conduct cooperation pragmatically with all countries and regions, large or small, rich or poor, in multilateral, regional and bilateral frameworks to draw on each other's merits for complementation, to bring into play each other's respective advantages and to achieve mutual benefits and win-win results. The multilateral trading system is the cornerstone of China's foreign economic and trade relations. The Chinese Government spares no efforts to push forward the Doha Development Agenda and safeguards the multilateral trading system with concrete actions. At the same time, the Chinese Government steadily promotes bilateral and regional relations and continuously enhances the South-South cooperation.

II. ECONOMIC AND TRADE ENVIRONMENT AND MACROECONOMIC POLICY DIRECTION

(1) ECONOMIC AND TRADE ENVIRONMENT

(i) External environment

4. Since the last review, the economic and trade development in China has been impacted by a complicated and unfavorable external environment. The international financial crisis worsens, and the spreading sovereign debt crisis of some countries is not to be effectively resolved in the short term. Major developed economies are plagued with high unemployment and insufficient growth momentum, while many developing countries face the dual pressures of inflation and declining economic growth. The world economy slows down its recovery process with unstable and uncertain factors growing, and the global trade becomes weak and its growth rate setting back.

5. Influenced by unconventional monetary policies of different countries including the "quantitative easing", the exchange rates of major currencies on the international market are much volatile, and commodity prices fluctuate more at high levels, thus driving up the cost of imports and increasing significantly the pressure of imported inflation. Developed countries call for moving-back of manufacturing sectors from overseas, and the competitiveness of labor-intensive industries in developing countries increases. This leads to more intense international competition, and from time to time protectionism in various forms emerges.

(ii) Domestic situation

6. China is a developing country facing arduous development tasks for a long time. It has to strive not only to raise further the level of the per capita income, which is still low, but also to resolve various outstanding problems that the development is not yet balanced, coordinated and sustainable. This manifests itself mainly in the following: growing resource and environmental constraints on economic growth, imbalance between investment and consumption, large income gap, insufficient scientific and technological innovation capabilities, imbalanced industrial structure, weak agriculture foundation, uneven development between urban and rural areas and between regions, the coexistence of overall pressure to expand employment and structural shortage of qualified personnel in some sectors. Such basic national conditions have not seen and cannot see a fundamental change simply because of China's success in economic development in a relatively short period of time.

7. Since reform and opening up in the late 1970s, China has solved the problem of adequate food and clothing for over 200 million impoverished people, and realized the UN Millennium Development Goals of eradicating poverty and hunger ahead of time. In the first ten years of the 21st century, China's poverty line increased from ¥865 in 2000 to ¥1,274 in 2010, and the number of people in dire poverty decreased from 94.22 million in 2000 to 26.88 million in 2010. In 2011, the Chinese Government promulgated the Outline for Development-Oriented Poverty Reduction for China's Rural Areas (2011-2020) to implement the new national poverty line of ¥2,300 (constant prices in 2010). Under this standard, China now has a poverty-stricken population of 122 million.

8. In China's economic performance in the past two years, there were some new developments deserving a high degree of attention. While the economy generally witnessed stable and rapid development, signs of downward pressure also emerged. At the same time, despite that the price level somewhat dropped after hitting several highs, the deeply-seated factors contributing to inflation were not eradicated fundamentally. The upward trend of labor cost is more pronounced, and the rise in costs of resources, land and other factors of production becomes inevitable. The pressure of price rise will exist for a long term in China.

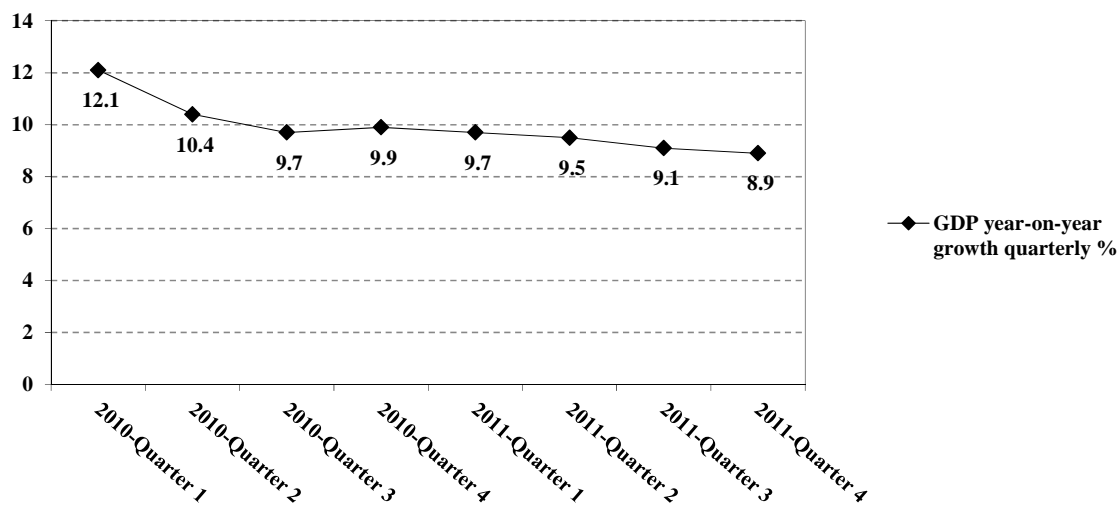
9. During 2010 and 2011, China's gross domestic product (GDP) achieved stable and rapid growth, but the growth rate was gradually slowing down. Calculated at comparable prices, the year-on-year increase of GDP in 2010 by each quarter was 12.1%, 10.4%, 9.7% and 9.9% respectively, and the figures in 2011 were 9.7%, 9.5%, 9.1% and 8.9% respectively (Chart 1: China GDP Year-on-Year Growth Quarterly 2010-2011).

10. China's consumer price index (CPI), after coming back to growth from drop on year-on-year basis at the end of 2009 along with the recovery of the economy, began to move up faster each quarter in 2010, registering an increase by 2.2% in the first quarter, 2.9% in the second quarter, 3.5% in the third quarter, and 4.7% in the fourth quarter. In 2011, the CPI growth continued, hitting 5.0% in the first quarter, 5.7% in the second quarter, and reaching a peak of 6.2% in the third quarter. In the fourth quarter, the CPI rise came down to 4.6% (Chart 2: China CPI and Year-on-year Growth Quarterly 2010-2011). In the past two years, the industrial producer price index (PPI) also kept a rapid-rising momentum, and the growth declined only in the fourth quarter in 2011.

11. In terms of labor cost, 30 provinces, municipalities and autonomous regions in China adjusted upward the minimum wages in 2010, with an average increase in the monthly minimum wages by 22.8%. After the adjustment, the minimum wage in Shanghai was the highest nationwide, being ¥1,120 per month. In 2011, 25 provinces, municipalities and autonomous regions adjusted their minimum wages, with the average increase being 22%. The monthly income of migrant workers on

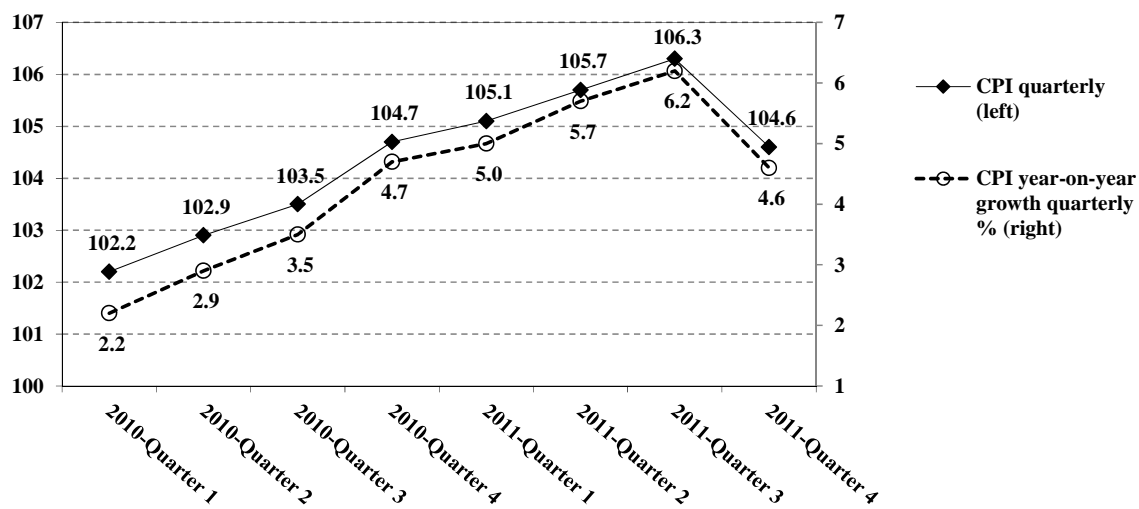
average grew from ¥875 in 2005 to ¥1,417 in 2009, with an average annual growth of 15.5%. The figure went up to ¥1,690 in 2010, and further up to ¥2,049 in 2011.

Chart 1
China GDP Year-on-Year Growth Quarterly 2010-11



Source: National Statistics Bureau.

Chart 2
China CPI and Year-on-Year Growth Quarterly, 2010-11



Source: National Statistics Bureau.

(2) IMPROVING RELEVANCE, FLEXIBILITY AND PERSPECTIVENESS OF MACROECONOMIC POLICY

(i) Macroeconomic policy objectives

12. Since the last review in 2010, in response to the changing situations at home and abroad, the Chinese Government has continued to consolidate and expand the positive results achieved in dealing with the impact of the international financial crisis, and continuously improved the relevance, flexibility and perspectiveness of macroeconomic policy. While striving for recovery and stabilization of the economic growth rate, it also promoted the shift of the economic growth from being based on policy stimulus to internal dynamism. The key of the policy has been to achieve balancing in the relationships among ensuring steady and robust economic growth, adjusting the economic structure, and managing inflation expectations.

13. In 2010, the Chinese Government maintained continuity and consistency of the macroeconomic policy adopted since the outbreak of the international financial crisis, and continued to implement the proactive fiscal policy and moderately easy monetary policy in a bid to consolidate the good recovery momentum of the economy. In 2011, in the light of the new developments and characteristics in domestic and international situations, the Chinese Government set as the primary objective of its macroeconomic policy to keep the overall prices basically stable, and while implementing a proactive fiscal policy, it steered its monetary policy from moderately easy to prudent, to prevent large economic fluctuations.

14. In March 2011, the Fourth Session of the 11th National People's Congress approved the Outline of the 12th Five-Year Plan for National Economic and Social Development of the People's Republic of China (referred to as the "12th Five-Year Plan"). The 12th Five-Year Plan proposes that within the five years from 2011 to 2015, China will continue to maintain steady and rapid economic development on the basis of significantly improving the development quality and efficiency. It also identifies ten policy directions for economic and social development, namely to strengthen and improve macro policy direction, set up the permanent mechanism for boosting consumption, adjust and optimize investment structure, promote industrialization, urbanization and agricultural modernization simultaneously, advance industrial upgrading through scientific and technological innovation, promote coordinated and mutually reinforcing development among regions, enhance incentive and restraining mechanisms for energy conservation and emission reduction, advance the equalization of basic public services, accelerate the income increase of urban and rural residents, and strengthen and make innovations in social administration.

(ii) Fiscal policy

15. To maintain the sustainability of the development, the Chinese Government always adheres to the policy of keeping the level of fiscal deficit under control. In 2010 and 2011, under the proactive fiscal policy, the government budget arranged a moderate level of deficit. However, the share of the deficit in GDP was reduced from 2.8% in 2009 to 2.5% in 2010. In 2011 the share further declined to 1.8%. The outstanding balance on government debt in the central budget was ¥6,754.811 billion at the end of 2010, and ¥7,204.451 billion at the end of 2011, with the share in GDP decreasing from 16.8% to 15.3%.

16. The structure of fiscal expenditure was further optimized. The Government continued to increase spending on agriculture, rural areas and farmers, in less developed areas, on education, healthcare, social security, low-income housing, and environmental protection. During the

11th Five-Year Plan period (2006-2010), public spending on healthcare and social security increased by 2.8 times and 1.3 times respectively compared with the 10th Five-Year Plan period (2001-2005). These changes in the structure of fiscal expenditure are of great significance to achieving the long-term sustainable economic and social development in China.

17. The Chinese Government continued to introduce structural tax reductions. In 2010, the purchase tax for passenger vehicles with a displacement of 1.6 liters or less was levied at the reduced rate of 7.5%. From 2010 to 2015, for small and low-profit enterprises with yearly payable tax amounting to ¥60,000 or less, the taxable income is reduced to 50% of its income, and the enterprise income tax is levied at a reduced tax rate of 20%. On 1 November 2011, the revised Detailed Rules for the Implementation of the Provisional Regulations on Value-Added Tax and the Detailed Rules for the Implementation of the Provisional Regulations on Business Tax raised the value-added tax and business tax thresholds of self-employed industrial and commercial households. In addition, personal income tax cuts were implemented, and taxation system reform was further advanced to promote the development of the service sector.

(iii) Monetary policy

18. In terms of monetary policy, in the past two years, the People's Bank of China strived to achieve an equilibrium among the policy objectives of the currency value stability, economic growth, full employment and balance of payments in the light of the primary challenges in economic development in different periods, and handled satisfactorily the relationships among sustaining economic development, containing inflation and preventing financial risks.

19. In 2010, the People's Bank of China continued to implement a moderately easy monetary policy. At the same time, as the momentum of economic recovery was steadily gaining ground, it put emphasis on making the policy more targeted, flexible and forward-looking, and guided the monetary conditions to return step by step from anti-crisis state to normal. In 2011, a prudent monetary policy was pursued. In the first three quarters, under the ever-increasing inflation pressure, the People's Bank of China guided the steady slowdown of money and credit growth by using a variety of policy tools. In the fourth quarter, with the short-term capital flows having experienced some shift as a result of international situations including the worsening of the European debt crisis, the slowdown of economic growth on the domestic front and the fallback of price rise, monetary policy was timely fine-tuned accordingly and market liquidity was appropriately increased to maintain the overall moderate level of money and credit supply.

(3) ACCELERATING THE TRANSFORMATION OF ECONOMIC DEVELOPMENT PATTERN

20. In response to the international financial crisis, the Chinese Government further realized the importance and urgency of transforming the economic development pattern to the robust and sustainable economic development and the construction of a moderately prosperous society. Therefore, in the past two years, the Chinese Government performed more proactively in balancing and coordinating the speed of economic growth and the transformation of economic development pattern, and pushed forward transformations in the course of development and sought further development amidst transformations. The pace of transformation of economic development pattern was accelerated, and the comprehensiveness, coordination and sustainability of the development were further enhanced.

(i) Implementing the strategy of expanding domestic demand

21. Expanding domestic demand, particularly consumer demand, is essential to long-term steady and robust economic development in China. It is a long-term policy that the Chinese Government will adhere to. In 2010, the Chinese Government continued to implement consumption stimulus programs such as the programs for rural residents to purchase home appliances and motor vehicles and motorbikes, for people to trade in old motor vehicles and home appliances for new ones, and for use of energy-efficient products. The Chinese Government also continued to improve the consumption environment and expand consumption in new areas by measures such as upgrading rural and community commercial facilities, promoting consumption facilitation and encouraging credit consumption. In the meantime, in view of the fact that some of the programs introduced in the course of addressing the international financial crisis were to be phased out, introduction of new policies for promotion of consumption was under study to facilitate and benefit people, with the general policy direction being green, low carbon, energy saving and environment protecting.

22. Meanwhile, the Chinese Government paid more attention to setting up permanent mechanism for boosting consumption, vigorously adjusted income distribution, increased the incomes of low and middle-income groups to expand the share of middle-income groups in the population and to enhance people's ability to consume.

23. On 1 September 2011, China began to implement the newly revised Personal Income Tax Law and the Regulations on the Implementation of the Personal Income Tax Law. The wage and salary threshold for personal income tax was raised from per capita ¥2,000 per month to ¥3,500, the tax rates for wage and salary income were simplified from nine grades to seven grades, and the lowest rate in the progressive tax rates reduced from 5% to 3%. The tax rates for income from production and business operation by self-employed industrial and commercial households were also adjusted, which effectively reduced the tax burdens on self-employed industrial and commercial households and investors in individual proprietorship enterprises and partnership businesses. The personal income tax cut was to play an important and positive role in adjusting income distribution and enhancing the spending power of the people.

24. In addition to significantly lowering personal income tax and raising minimum wages, starting from 1 January 2011, the basic pension of enterprise retirees under the basic pension insurance scheme for enterprise employees was again increased, registering an average of 10% rise from the level in 2010 and benefiting more than 57 million people. Prior to this increase, the basic pension of enterprise retirees had been raised for six consecutive years from 2005 to 2010, thus having doubled cumulatively.

25. China's domestic consumer market continued to grow rapidly over the past two years. The total retail sales of consumer goods reached ¥15.70 trillion in 2010, and ¥18.39 trillion in 2011, a year-on-year increase of 18.3% and 17.1% respectively. After adjustment for price changes, the increases in real terms were 14.8% and 11.6% respectively. Throughout the 11th Five-Year Plan period, the annual growth rate of retail sales in China was more than 10% per year in real terms after taking price factors into consideration.

26. While striving to expand consumer demand, the Chinese Government also attaches importance to the positive role of a rational growth of investment. At present, priorities of public investment arranged in the central budget include low-income housing, water conservancy, rural livelihood projects and rural infrastructure, education, healthcare and other social services, as well as energy conservation, emission reduction, environmental protection, major infrastructure projects etc.

Private investment is also very active. In 2011, compared to the 23.6% increase in the total fixed assets investment of the whole country, private investment increased by 34.3%. These investments have played an active role in maintaining investment demand and promoting economic growth. They also consolidate in a long run the basis for China's economic and social development.

27. In 2010 and 2011, China's GDP increased 10.4% and 9.2% year-on-year respectively. In the growth, final consumption contributed 4.3 percentage points and 4.7 percentage points, capital formation contributed 5.5 percentage points and 5 percentage points, and net exports contributed 0.6 percentage points and minus 0.5 percentage points. It is fair to say that domestic demand played a leading role in promoting China's economic development in recent years. The roles of investment and consumption tended to be more balanced, and that of the consumer demand became more prominent in boosting the economy.

(ii) Accelerating the development of the service sector

28. Accelerating the development of the service sector is a major task in China's transformation of the pattern of economic development and restructuring of the economy. Since the last review, the Chinese Government has continued the efforts to strengthen a policy and institutional environment conducive to the development of the service sector, and launched on pilot basis the tax reform aiming at boosting the service sector. The Chinese Government has also strived to establish fair, standardized and transparent market access conditions to encourage the participation of private capital and non-public economy in services sectors, and proposed a series of guidance on the development of such specific services sectors as medical services, high-tech services, energy-saving services, logistics, accounting services, housekeeping services, e-commerce, inland shipping etc.

29. In 2010, China's tertiary sector realized an added value of ¥17.36 trillion, an increase of 9.8% over that of 2009, accounting for 43.2% of the GDP, 0.2 percentage points lower than the previous year. In 2011, the tertiary sector registered an added value of ¥20.33 trillion, a year-on-year increase of 8.9%, accounting for 43.1% of GDP. In general, contribution to GDP from the tertiary sector is still comparatively low, and the development of the service sector requires more arduous efforts.

(iii) Intensifying efforts for intellectual property rights protection

30. Strengthening intellectual property rights (IPRs) protection has always been an important part of the work of the Chinese Government to accelerate the construction of an innovative country. China has gone through a course of IPRs protection in 30-odd years which took several hundred years in developed countries, and has achieved remarkable accomplishments. However, due to the contemporary conditions of China as a large developing country, infringements of IPRs still exist, which disturb the order of market economy and disrupt competitiveness and innovation enthusiasm of enterprises.

31. Since the last review, with respect to IPRs protection, the Chinese Government on the one hand has concentrated efforts on strengthening enforcement to solve prominent problems, carrying out special campaigns of cracking down on infringements and counterfeits. On the other hand, it has advanced the construction of long-term mechanism for IPRs protection and actively fostered favourable legal environment, market environment and social environment.

32. From October 2010 to June 2011, the Chinese Government launched a special enforcement campaign nationwide aiming at cracking down on infringing IPRs and manufacturing and selling counterfeit commodities. A leading group headed by Vice Premier Wang Qishan and involving 26 government agencies was established for the campaign, and Premier Wen Jiabao convened the

national video conference on IPRs protection and enforcement to give assignments. Based on the results of the campaign, in November 2011, the State Council issued the Opinions on Further Cracking Down on Infringements of Intellectual Property Rights and Manufacturing and Selling of Counterfeit Commodities, and decided to establish a permanent leading group to improve further the long-term mechanism for protection of IPRs. The leading group is headed by Vice Premier Wang Qishan and involves 29 government agencies, indicating that the government regards crackdown on infringements of intellectual property rights and manufacturing and selling of counterfeit commodities as a long-term task and will never slacken its efforts.

33. In 2010 and 2011, China amended a number of laws and regulations concerning IPRs, including for example the Copyright Law and Regulations on the Customs Protection of Intellectual Property Rights. The Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security released the Opinions on Certain Issues Concerning Application of Law in Handling Criminal Cases Related to the Infringement of Intellectual Property Rights, providing more explicit guidance for criminal enforcement issues and improving the connection between administrative enforcement and criminal justice.

34. The Chinese Government also carried out a series of publicity activities concerning IPRs protection, including exhibitions on the achievements of the special campaign on cracking down on infringements of intellectual property rights and manufacturing and selling of counterfeit commodities and the nationwide Intellectual Property Rights Protection Week in 2010 and 2011, in a bid to further raise the awareness of IPRs protection in the society, to mobilize the general public to support and participate in IPRs protection, and to create a sound public opinion environment and favourable social conditions for the building of an innovative country.

(iv) Advancing energy conservation and pollution reduction and industrial restructuring

35. In the face of increasingly aggravating resources and environmental constraints in the course of economic development, the Chinese Government has always considered pushing forward energy conservation and pollution reduction and accelerating industrial restructuring as important tasks in promoting the transformation of the pattern of economic development. Over the past two years, to protect the ecological environment, address global climate change and realize sustainable economic and social development, the Chinese Government further intensified measures and policies to close down outdated production facilities and restrict exploitation of non-renewable resources.

36. In closing down outdated production capacities for the purpose of conserving energy and reducing pollution, the Chinese Government set and implemented explicit binding targets. In 2010, highly energy consuming and polluting production facilities with the total capacities of 11.86 million tonnes in steel industry, 41 million tonnes in iron-smelting industry, 140 million tonnes in cement industry and 5.39 million tonnes in paper industry were shut down. In 2011, outdated production capacities of another 31.22 million tonnes in iron-smelting industry, 150 million tonnes in cement industry and 19.25 million tonnes in coke industry were further eliminated. During the 11th Five-Year Plan period, China's energy consumption per unit of GDP fell by 19.1%, sulfur dioxide emissions and chemical oxygen demand decreased by 14.29% and 12.45% respectively. China has undertaken obligations compatible with its development stage in addressing the global climate change.

37. For industries seriously damaging resources and environment and already having surplus production capacities, the access standards in respect of technology, production scale, ecological protection, energy conservation and consumption reduction and safety production were further raised.

More strict protective exploitation policies and environment protection standards were adopted on non-renewable resources such as bauxite, tungsten, antimony, tin and rare earth, and the total exploitation and production volumes were strictly controlled, in order to protect resources and ecological environment and promote reasonable and efficient exploitation and utilization.

(v) Strengthening further the foundation for the development of agriculture and rural areas

38. The sound development of agriculture and rural areas is of great significance to the long-term steady and sustainable economic and social development in China. The Chinese Government will, in accordance with the requirements on narrowing the gap between urban and rural areas and improving the balance between urban and rural development, continue the implementation of the "pay-back" policies and further strengthen the support for agriculture, rural areas and farmers so as to constantly promote agricultural modernization in the course of industrialization and urbanization, improve production and living conditions in rural areas, increase incomes of farmers, consolidate and strengthen the foundation for the development of agriculture and rural areas and create conditions for sustainable, rapid and coordinated economic and social development.

39. In 2010 and 2011, China's per capita net income of rural residents reached ¥5,919 and ¥6,977 respectively, a year-on-year increase in real terms of 10.9% and 11.4% after adjustment for price rise. It was the first time since 1998 that the income growth of rural residents outpaced the growth of per capita disposable income of urban residents, and in two consecutive years the difference was higher by 3 percentage points. By 2011, China's urbanization level exceeded 50%, marking a historic change in the country's social structure.

(4) CONTINUING TO DEEPEN THE REFORM STEADFASTLY

40. Reform is China's basic state policy. The Chinese Government handles properly the relationships among reform, development and stabilization, steadily and steadfastly advances the reform and eradicates obstacles embedded in various systems and mechanisms constraining development and constantly improves the socialist market economy, so as to provide a great driving force for acceleration of the transformation of the economic growth pattern and for promotion of the comprehensive, balanced and sustainable economic and social development.

(i) Establishment of the socialist system of laws with Chinese characteristics

41. Rule of law is a fundamental principle for China to effectively govern the country. China needs to bring into being a comprehensive system of laws with Chinese characteristics so as to ensure that there are laws to abide by for the carrying on of state affairs and social life. This is a precondition and foundation for China to implement the fundamental principle of rule of law and an institutional guarantee for China's development and progress.

42. By the end of 2011, in addition to the current Constitution and its Amendments, China has 239 laws, 714 administrative regulations, and over 8,900 local regulations in force. As a result, all legal branches in the system have been set up, covering all aspects of social relations. In each legal branch, basic and major laws have been enacted, and related administrative regulations and local regulations are fairly complete. Furthermore, with the major overhauls of the laws and regulations in past years, in particular the latest one carried out since 2009 by the Standing Committee of the National People's Congress, the State Council, and local people's congresses and their standing committees to ensure uniformity of the national legal system, the problems of incompatibility among laws and regulations have largely been sorted out. A socialist system of laws with Chinese characteristics has been solidly put into place.

(ii) Reform of the administrative system

43. In July 2010, the State Council issued the Decision on the Fifth Batch of Administrative Licensing Items to be Cancelled or Delegated to Local Government Authorities, which abolished 113 administrative licensing items and delegated another 71 items to local government authorities, moving forward the reform of the administrative licensing system and promoting the change of government functions.

44. In October 2010, the State Council issued the Opinions on Strengthening the Construction of a Law Based Government to advance rule of law in an all-round way and push forward construction of a law-based government. The Opinions pointed out, among others, that rules and administrative measures should be overhauled regularly and the results made public. When administrative measures having direct impact on rights and obligations of citizens, legal persons or other organizations are formulated, opinions of the general public should be solicited and legitimacy review be conducted by the legislative affairs authorities in the government. Review upon filing and registration of rules and administrative measures should be strengthened, in particular on those that may illegally increase the obligations of citizens, legal persons and other organizations or affect their legitimate interests, and also those that may establish local or sectoral protectionism. Efforts in disclosing government information should be intensified, with disclosure being the general rule while non-disclosure being exception. The Opinions also proposed that work on administrative reconsideration should be enhanced and response to administrative litigation be further improved.

(iii) Reform of state-owned enterprises and development of the non-public sector

45. Supporting the development of SMEs, especially small low-profit enterprises, is an important part of the work of the Chinese Government to promote the common development of economic entities of diverse forms of ownership. In addition to the structural tax reductions in favour of small low-profit enterprises, the Chinese Government expanded the funds for promoting the development of SMEs. It will also continue making efforts in broadening financing channels of SMEs, gradually expanding the size of issuance of collection notes, collection bonds and short-term financing bills by SMEs, and actively and steadily introducing private equity investments and other financing vehicles.

46. After promulgating in September 2009 the Opinions on Further Promoting the Development of SMEs, the State Council issued the Opinions on Encouraging and Guiding the Healthy Development of Private Investment in May 2010, proposing that private capital is encouraged to enter sectors and fields the access of which is not explicitly prohibited by law. These include infrastructures, public utilities, national defence industries and service sectors such as finance, culture, education, sports and medical care etc. The Opinions also proposed that investment access thresholds and conditions should be set in a standardized manner to create a market environment in favour of fair competition and equal access of economic entities under diverse forms of ownership. Currently, more detailed rules on entry of private capital into related sectors and fields are being worked out, and they are supposed to be promulgated later in 2012 according to the requirement of the State Council.

47. Reform of state-owned enterprises (SOEs) in China, after going on for more than 20 years, now enters a stage focusing on restructuring of large SOEs. The direction of further deepening the reform is to accelerate the introduction of corporate and share-holding systems, realize diversification of investors, and push forward entire listing of those qualified large SOEs. For those not yet ready for entire listing, reform on diversification of ownership should speed up.

48. By the end of 2011, the number of SOEs for which the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) performed the responsibilities of an investor (central SOEs) had further decreased to 117 from 128 at the time of the last review, and more than 80% of these enterprises, their subsidiaries included, had implemented share-holding system reform through corporatization. In 2005, the first batch of 7 central SOEs as wholly state-owned companies began the reform on a trial basis to establish standard board of directors. As of the beginning of 2012 standard board of directors has been in place in 42 central SOEs, with external directors accounting for more than 50% of all the directors. The systems of external directors and of the standard operation of board of directors have been gradually improved. Furthermore, reform concerning the budget system for operations of state capital was advanced in 2011 with its scope further expanded and the proportion of profits of central SOEs from state capital operations to be collected by the central government further increased.

(iv) Reform of fiscal and taxation system

49. With respect to the fiscal system, after years of reform, the Chinese Government has put in place a basic framework of a government budget system that comprises budget for public finance, budget for government-managed funds and budget for state capital operations. The budget for social security funds has also been compiled since 2010 on a trial basis. Fiscal transparency has also been constantly improved.

50. Reform of the taxation system continued to advance quickly over the past two years. On 1 December 2010, the urban construction and maintenance tax and the education surcharge began to be applied equally for Chinese and foreign-invested enterprises and individuals. The taxation system for Chinese and foreign-invested enterprises and individuals in China was thus finally unified. In 2011, the municipalities of Shanghai and Chongqing launched the pilot program of collecting real estate tax on individual properties. In 2012, new vehicle and vessel tax and tonnage tax were implemented.

51. Reform of the resource tax system was launched. The Provisional Regulations on Resource Tax was amended and came into force on 1 November 2011. For calculation and levy of resource tax, in addition to the amount-on-volume (specific) method, the rate-on-price (*ad valorem*) method was introduced. The specific resource tax on crude oil and natural gas was changed to *ad valorem* resource tax. For rare earth and some other products still subject to specific resource tax, the tax amount was adjusted. Reform of resource tax system was of great importance to promote conservation, reasonable and efficient exploitation and utilization of resources, protection of ecological environment and sustainable economic and social development.

52. Reform of the value-added tax system was also further deepened. The pilot reform program of levying value added tax in lieu of business tax was implemented in the transportation and some other services sectors in Shanghai on 1 January 2012. The reform aimed at addressing the issue of double taxation of goods and services in the current taxation system, reducing tax burdens of enterprises and promoting the development of the service sector. It was of great significance for the adjustment of economic structure and for the sound and balanced development of the national economy.

(v) Reform of the RMB exchange rate regime

53. On 21 July 2005, China began to implement the managed floating foreign exchange rate system based on market demand and supply and in reference to a basket of currencies. Henceforth,

the reform of the RMB exchange rate regime has been pushed forward in an orderly way, and the flexibility of RMB exchange rate has been constantly enhanced. In 2008 induced by the outbreak of the global financial crisis, a number of other major currencies depreciated significantly against the U.S. dollar. The floating range of the RMB exchange rate was narrowed and the RMB exchange rate remained basically stable. This helped to stabilize market expectations, demonstrated China's efforts to promote a balanced global economy, and contributed to the economic recovery in Asia and in the world at large.

54. As the momentum of global economic recovery emerged and the foundation for China's economic upturn became more solid, on 19 June 2010 the Chinese Government decided to proceed further with the reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility, with the emphasis being placed on reflecting market supply and demand with reference to a basket of currencies. Since then, the RMB exchange rate has moved in both directions and appreciated slightly with greater flexibility, and the expectations for the RMB exchange rate remaining stable.

55. At the end of 2011, the central parity of the RMB against the U.S. dollar stood at ¥6.3009 per U.S. dollar, appreciating by 5.11% compared with that at the end of 2010; the central parity of the RMB against the euro and yen were ¥8.1625 per euro and ¥8.1103 per hundred yen, up by 7.89% and 0.19% respectively over the level at the end of 2010. According to the Bank for International Settlements (BIS), in 2011 the nominal effective RMB exchange rate appreciated by 4.95%, and the real effective exchange rate appreciated by 6.22%. From the start of the reform of the RMB exchange rate regime in 2005 to December 2011, the nominal effective RMB exchange rate appreciated by 21.16% and the real effective exchange rate appreciated by 30.46%.

56. China's balance of payment account has moved closer to equilibrium, and the ratios of commodity trade surplus and current account surplus to the GDP have been declining and are within the internationally acknowledged normal level. China's commodity trade surplus in 2010 accounted for 3.0% of the GDP, and in 2011 it declined to 2.1%. China's current account surplus in 2010 accounted for 5.0% of the GDP, in 2011 it dropped to 2.8%. Moving toward equilibrium of the balance of payments has promoted balance between supply and demand in the foreign exchange market and also differentiation of the expectations of the RMB exchange rate. The RMB exchange rates are moving towards an equilibrium level. Since the fourth quarter of 2011, expectations of the RMB exchange rate have moved in both directions of appreciation and depreciation as shown in the quotations in the overseas RMB Non-Delivery Forward (NDF) market, which is also an indication that the RMB exchange rates are approaching an equilibrium level.

(vi) Reform of the social security and medical and healthcare systems

57. Progress of the reform of the social security and healthcare systems plays an irreplaceable role in improving people's livelihood, boosting domestic demand and realizing long-term coordinated and sustainable economic and social development in China. Since the last review, China's construction of the social security system has further accelerated, and its coverage greatly expanded. By the end of 2011, the pilot program of the new pension insurance for rural residents initiated in 2009 had covered more than 60% of China's counties. On 1 July 2011, the pilot program of the pension insurance for non-working urban residents was launched, which indicated that the framework of China's basic pension insurance system had basically been completed.

58. In the reform of medical and healthcare system, new breakthroughs have also been achieved. Nearly 1.3 billion people have subscribed to either the basic medical insurance for urban workers, or

the basic medical insurance for non-working urban residents, or the new rural cooperative medical care system, covering more than 95% of all the urban and rural residents. The national system for basic drugs is largely in place, the primary-level medical and healthcare system improved, and progress has also been made in providing equal access to basic public health services.

III. TRADE AND INVESTMENT DEVELOPMENT AND RELATED POLICIES

(1) TRADE AND INVESTMENT DEVELOPMENT

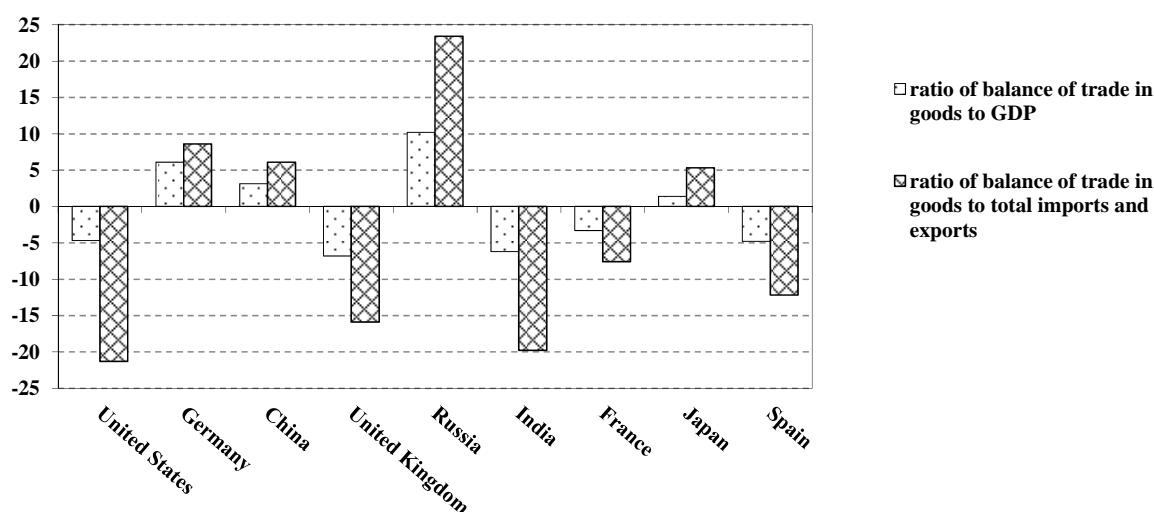
(i) New trend in trade development

59. In 2010 and 2011, China's total merchandise imports and exports reached US\$2,974 billion and US\$3,642 billion, up 34.7% and 22.5% year-on-year respectively, of which, exports in 2010 and 2011 were US\$1,577.75 billion and US\$1,898.5 billion, up 31.3% and 20.3% year-on-year respectively, and imports were US\$1,396.25 billion and US\$1,743.5 billion, up 38.8% and 24.9% year-on-year respectively.

60. The development of China's merchandise trade in the past few years has shown some new features. First of all, growth in imports outpaced that of exports noticeably, resulting in continuous decline in the surplus in trade in goods. China's surplus in trade in goods began to decline gradually after hitting the record high of US\$298.1 billion in 2008. In 2009, 2010 and 2011 the surplus was US\$195.7 billion, US\$181.5 billion and US\$155 billion respectively, down 34.4%, 7.2% and 14.6% year-on-year. In 2010 and 2011, China's surplus in trade in goods accounted for 6.1% and 4.3% of its total imports and exports, and 3.0% and 2.1% of the GDP. Among the 9 countries with the largest trade balances, including surplus and deficit, China was not prominent in terms of the two ratios. (Chart 3: Ratio of balance of trade in goods to GDP and to total imports and exports in 2010 for the 9 nations having largest trade in goods balances).

Chart 3

Ratio of Balance of Trade in Goods to GDP and to Total Imports and Exports in 2010 for the 9 Nations



Source: Import and export from the World Trade Organization, and GDP data from the World Bank.

61. Second, the share of processing trade in total imports and exports showed an obvious trend of decline. From 2009 to 2011, imports and exports under processing trade accounted for 41.2%, 38.9% and 35.8% respectively of the total imports and exports. Of them, exports under processing trade accounted for 48.8%, 46.9% and 44% respectively of the total exports, and imports under processing trade accounted for 32%, 29.9% and 26.9% respectively of the total imports.

62. In contrast, general trade growth has been strong. From 2009 to 2011, imports and exports under general trade accounted for 48.2%, 50.1% and 52.8% respectively of the total imports and exports. Of them, exports under general trade accounted for 44.1%, 45.7% and 48.3% respectively of the total exports, and imports under general trade accounted for 53.1%, 55.1% and 57.8% respectively of the total imports.

63. Moreover, China's trade with emerging markets has been strong, with the growth rate much higher than that with the traditional largest trading partners of the European Union, the United States and Japan. In 2010, the trade volume between China and ASEAN, Brazil, Russia, South Africa and India increased by 37.5%, 47.6%, 43.3%, 59.9% and 42.4% respectively, while trade with the European Union, the United States and Japan increased by 31.8%, 29.2% and 30.2% respectively. In 2011, the bilateral trade between China and ASEAN, Brazil, Russia, South Africa and India increased by 23.9%, 34.5%, 42.7%, 76.8% and 19.7% respectively, and that with the European Union, the United States and Japan increased by 18.3%, 15.9% and 15.1%.

64. Private enterprises saw a trade growth rate significantly faster than the overall level. In 2010, private enterprises exported US\$431 billion, an increase of 44.8% and 13.5 percentage points higher than the overall exports growth; and their imports was US\$214.73 billion, an increase of 52.7%, 13.9 percentage points higher than the overall imports growth. In 2011, private enterprises exported US\$579.74 billion, an increase of 34.5% and 14.2 percentage points higher than the overall exports growth; and their imports was US\$293.87 billion, an increase of 36.9%, 12 percentage points higher than the overall imports growth.

65. Trade in services continued its rapid development, but the long-standing deficit situation has not changed. In 2010 and 2011, China's total imports and exports of services was US\$362.4 billion and US\$419.1 billion respectively, an increase of 26.4% and 15.6%. The deficit was US\$21.9 billion in 2010, and US\$54.9 billion in 2011.

(ii) Inward and outbound foreign direct investment

66. In 2010, foreign direct investment in China rose steadily. The number of newly approved foreign-invested enterprises in non-financial sectors was 27,406, up 16.9% year-on-year; and the realized value of foreign investment amounted to US\$105.74 billion, up 17.4% year-on-year and for the first time exceeding US\$100 billion, registering a record high. In 2011, the realized value of foreign investment in non-financial sectors amounted to US\$116.01 billion, up 9.7% year-on-year, setting another new record; and the number of newly approved foreign-invested enterprises was 27,712, up 1.12% year-on-year.

67. The sectoral distribution of foreign investment continued to be optimized. In 2010, paid-in foreign capital in the service sector (the financial sector excluded) reached US\$48.71 billion, up 28.6% year-on-year, achieving an increase much higher than the 6% increase in the paid-in foreign investment in the manufacturing sector, and the realized investment in the service sector accounted for 46.1% of the total, close to 46.9% of the manufacturing sector. In 2011, the realized foreign capital in the service sector reached US\$55.24 billion, up 13.4% year-on-year, again significantly higher than

the 5% increase in manufacturing over the same period, and its share in the total actual use of foreign investment rose to 47.6%, for the first time exceeding that of manufacturing, which in the year stood at 44.9%.

68. Foreign investment in central and western regions took on a momentum of acceleration. In 2010, the actual use of foreign investment in China's eastern, central and western regions accounted for 85%, 6.5% and 8.5% respectively in the country's total, which was 1.2 percentage points lower, 0.6 percentage points higher and 0.6 percentage points higher compared with that in 2009. In 2011, the actual use of foreign capital in eastern, central and western regions accounted for 83.3%, 6.8% and 10% respectively in the country's total, which was 1.7 percentage points lower, 0.3 percentage points higher and 1.5 percentage points higher than in 2010.

69. China's overseas direct investment grew steadily. In 2010, the non-financial direct investment made by investors from mainland China went to 129 countries and regions and amounted to US\$59 billion. In 2011, the same investment reached US\$60.1 billion, involving 132 countries and regions. As of the end of 2011, China had cumulatively made US\$322 billion non-financial overseas direct investments in a total of 178 countries and regions. Investors from Zhejiang Province, Shandong Province, Jiangsu Province, Guangdong Province and Shanghai Municipality were particularly active.

70. By the end of 2010, China's outbound investment had involved all sectors of a national economy, major sectors including business services (US\$97.25 billion or 30.7%), financial services (US\$55.25 billion or 17.4%), mining industry (US\$44.66 billion or 14.1%), wholesale and retail (US\$42.01 billion or 13.2%), transportation services (US\$23.19 billion or 7.3%) and manufacturing sectors (US\$17.8 billion or 5.6%).

(2) PROMOTING BALANCED AND SUSTAINABLE DEVELOPMENT OF TRADE AND INVESTMENT

71. China has entered a new stage of opening up in which the status and role in the national economy of import and export as well as inward and outbound investment have profoundly changed. In the face of the new situation, the Chinese Government pays more attention to the balanced, coordinated and sustainable development of trade and investment.

(i) Striving to balance the growth of imports and exports

72. China's trade in goods has shifted from export-oriented to having equal emphasis on import and export. The Chinese Government does not pursue a foreign trade surplus intentionally. The long-standing surplus of China's trade in goods is the natural result of the country's full participation in the global production chain. While China enjoys a trade surplus with end consumer markets, it has long-term trade deficit with major producers of intermediate and primary products. Moreover, foreign-invested enterprises and processing trade are the main sources of China's surplus of trade in goods.

73. The Chinese Government has committed to the balanced development of import and export. In the past two years, in accordance with the requirements of expanding domestic demand and accelerating the transformation of the pattern of economic development, the Chinese Government in adhering to the principle of having equal emphasis on import and export, made further efforts in import expansion so as to optimize the structure of trade balance and to give better play to the role of import in macroeconomic rebalancing and economic restructuring.

74. In recent years, the Chinese Government has annually implemented interim tariff rates on certain imported products which are lower than the applied MFN rates. In 2010 and 2011, over 600 products at HS 8-digit level enjoyed the lower interim tariff rates each year. In 2012, in order to further increase imports, promote economic restructuring and satisfy the consumption needs of the people, application of the interim import tariff rates is extended to more than 730 tariff items, with the average tariff rate standing at 4.4%, which is more than 50% lower than the applied MFN rate.

75. Furthermore, in order to increase the import of key components and spare parts of major technical equipment and related raw materials, starting from 1 July 2009, the Chinese Government introduced tax incentives by exempting import tariffs and import VAT for such products. This helps to promote industrial restructuring, energy saving and emission reduction and to enhance the capabilities of domestic industries for sustainable development.

(ii) Accelerating the transformation of foreign trade development pattern

76. Along with the accelerating transformation of the pattern of China's economic development, the way foreign trade develops needs to be adjusted accordingly. While continuing to make the most of the advantages in labor resources, China needs to further reduce the consumption of energy and resources, move higher up the industrial chains, and strive to transform from scale expansion to quality and profit improvement and from mainly relying on low-cost advantages of resources, energy and labor force to enhancing comprehensive competitive edge. In addition, China needs to vigorously develop trade in services including undertaking service outsourcing and to increase the share of trade in services in its international trade.

77. Transformation and upgrading of processing trade has been accelerated. In November 2011, Ministry of Commerce together with other relevant ministries jointly issued a policy document on promotion of the transformation and upgrading of processing trade. According to the policy document, the directions of the adjustment of processing trade include firstly, to achieve structural upgrading of both industries and products, i.e., while prohibiting and restricting products that consume too much energy and resources, cause serious pollution or contain only low-level processing, China will endeavor to improve the technical content of the processing trade products; secondly, to optimize regional distribution of processing trade and to promote gradient transfer and reasonable adjustment of industrial layout among the eastern, central and western regions; thirdly, to guide processing trade to move up the industrial chains, to extend from simple processing to designing, research and development, branding, services and other content, prolonging the domestic value-adding process.

78. Export of products consuming too much energy and resources and causing serious pollution continues to be strictly controlled. On the issue of export administration measures, it is not the intention of the Chinese Government to restrict or distort trade or to protect domestic industries. The export administration measures on products of high energy consumption, high emission and pollution and products of exhaustible natural resources are an integral part of the ecological and environmental protection measures of the Chinese Government to achieve sustainable development under intensifying pressure from resources and environmental constraints. They are simultaneously implemented with domestic exploration and production restrictions. The policy objective is legitimate and justified.

79. Quality and safety requirements on export products have been further stressed and enhanced. In recent years, the Chinese Government improved laws and regulations on product quality and safety, strengthened supervision, and investigated and punished the few enterprises that had violated

law and caused quality problems to damage the reputation of Made in China. In March 2011, China launched the Year of Improving the Quality of Foreign Trade Products, through which mechanisms on approval, certification and supervision of the quality and safety of foreign trade products would be further improved, thereby to enhance the effectiveness and efficiency on safeguarding the quality and safety of export products.

(iii) Improving trade financing and trade facilitation

80. In July 2009, against the backdrop of the international financial crisis, the People's Bank of China launched the pilot program of using RMB in cross-border trade settlement in a bid to help enterprises evade the risk of drastic fluctuations in the exchange rates of major currencies for international settlement, to facilitate international trade and reduce transaction costs. Since then, the pilot program had progressed satisfactorily, its coverage extended, various relevant measures improved and the settlement size expanded. In March 2012, all enterprises in China engaged in import and export trade of both goods and services as well as in other current account transactions were able to use RMB for quotation, settlement and payment if they so wished.

81. While advancing step by step the pilot program of settlement of cross-border trade in RMB, the People's Bank of China in January 2011 issued the Measures on Administration of Settlement of Overseas Direct Investment in RMB on Trial Basis, in a bid to facilitate the outbound direct investment of domestic enterprises. In October 2011, the People's Bank of China issued the Measures on Administration of Settlement Services of Foreign Direct Investment in RMB. The rule, bridging the existing administrative regime on foreign direct investment, stated that overseas investors and related banks may handle settlement services for foreign direct investment in China in RMB. Formalities of financial services for overseas investors to make investment in China were further simplified and facilitated.

82. The People's Bank of China has also advanced bilateral currency swap arrangements with central banks or currency authorities of relevant countries and regions. By the end of March 2012, the People's Bank of China had signed bilateral currency swap agreements with central banks or currency authorities of 17 countries and regions, i.e. Republic of Korea; Hong Kong, China; Malaysia; Belarus; Indonesia; Argentina; Iceland; Singapore; New Zealand; Uzbekistan; Mongolia; Kazakhstan; Thailand; Pakistan; United Arab Emirates; Turkey; and Australia. These arrangements have played a positive role in safeguarding regional financial stability and facilitating trade and investment.

83. The Chinese Government has continued its efforts to improve facilitation of trade and investment in terms of procedures and formalities for Customs clearance, quarantine and quality inspection and foreign exchange administration. The foreign exchange administration concerning trade in goods, trade in services and overseas investment has undergone profound reform and has significantly reduced the operational costs of enterprises and banks.

(iv) Promoting the growth of outbound investment

84. With respect to investment, China is changing from focusing primarily on absorbing foreign investment to attaching importance to both inward and outbound investment. China has long been one of the major destinations for foreign direct investment. In comparison, China's outbound investment is still at an inception stage. However, it has also registered rapid growth. At the end of 2009, China's cumulative outward direct investment accounted for 1.3% of the global total. At the end of 2010 it went up to 1.6%, showing a momentum of steady growth. "Going global" of Chinese

enterprises is the natural result of the development of economic globalization. It satisfies the enterprises' own needs to further develop, and reflects also the requirement of further reform and opening up of the Chinese economy.

85. With respect to outbound investment, China follows the principles of mutual benefit, pragmatic cooperation and common development, respecting the aspiration of host countries for development and giving full play to each other's advantages to promote the economic and social development of both sides. China adheres to the principles of having enterprises playing the leading role and government offering guidance and assistance, enterprises making investment decisions independently out of their own will, and the Government focusing on creating favorable conditions and environment for enterprises through various supporting services. China also follows the principles of promoting development and preventing and controlling risks, enhancing the development level and cooperation quality of outbound investment and meanwhile raising the risk and safety consciousness of enterprises to effectively guard against damages.

86. In 2009, the Chinese Government began to compile and thereafter updated on a yearly basis the Country (Region) Specific Guide for Outward Foreign Direct Investment Cooperation. The Guide was released online at the official website of the Ministry of Commerce. It introduces investment environment in relevant countries and regions, and gives tips on points for attention for cross-border operation of Chinese enterprises. The Guide currently online is 2011 edition which covers 165 countries and regions.

87. In August 2011, the Chinese Government issued the Country (Region) Specific Guidelines on Industries for Outward Foreign Direct Investment (2011 edition). The Guidelines was compiled in accordance with the economic development plans and the information from government agencies including foreign investment authorities of relevant countries and regions. It introduces priority areas for foreign investment, main industrial development objectives, key regions for development and situations of relevant industries in 115 countries and regions, providing much public information for Chinese enterprises so that they can better combine their cross-border business strategy with the development needs of host countries, and promoting greatly the sustainable development of China's outward investment.

88. In March 2011, the Chinese Government issued the Guidelines for Employee Administration of Overseas Chinese-Funded Enterprises (Institutions). It is proposed in the Guidelines that Chinese enterprises uphold the business concept of mutual benefit and common development in their overseas investment, promote localized operation with job opportunities offered to local people to the extent possible. Chinese enterprises are also required to recruit local employees strictly in line with the law of the host country, and provide wages, benefits, social insurance and labour protection for employees according to law. Chinese enterprises are also advised to establish sound communication mechanisms with employees, industry associations and government agencies in host countries to resolve differences or disputes through friendly consultations.

(3) OPTIMIZING THE UTILIZATION OF FOREIGN INVESTMENT THROUGH FURTHER OPENING UP

89. Utilizing foreign investment has always been an important part of China's basic state policy of opening up to the outside world. Since adoption of the reform and opening up policy in the late 1970s, as the opening-up of the Chinese economy has deepened, foreign-invested enterprises have already become an important and integral part of the Chinese economy. They have promoted market competition, industry upgrading and technology advance in China, and have made important

contributions to China's economic and social development. Currently, when China's opening up enters into a new stage, China will continue to give play to its comparative advantages, create a more open and more optimized investment environment and constantly improve the quality and level of utilization of foreign investment.

(i) Foreign investment policy direction

90. In April 2010, the State Council issued the Opinions on Further Improving the Use of Foreign Investment. In light of the requirements to accelerate the transformation of the economic development pattern and to realize sustainable, steady yet robust economic development, the Opinions proposed to open up more areas to foreign investment and to optimize foreign investment structure. Foreign investments are encouraged to go to high-end manufacturing, high and new technology industries, modern services, new sources of energy and energy-saving and environment protecting industries. They are encouraged to move to central and western regions with increased investment and to develop in these regions labour intensive industries meeting environment protecting requirements.

91. The Opinions also proposed to diversify approaches and means for utilization of foreign capital, and encouraged foreign investors to participate in the restructuring, transformation and reorganization of domestic enterprises by way of merger and acquisition. Reform of foreign investment regime should be deepened to sort out administrative licensing and further improve transparency. Investment promotion should be strengthened and investment facilitation be enhanced, so as to further improve the investment environment.

(ii) Opening up more fields to foreign investment

92. In December 2011, the Chinese Government issued the Catalogue for the Guidance of Industries for Foreign Investment (2011), which came into force on 30 January 2012. This was another amendment to the Catalogue after the previous one done in October 2007, aiming at opening up more fields to foreign investment.

93. The newly amended Catalogue listed a total of 473 items, among which 354 items belonged to the encouraged category, an increase of 3 items from the previous Catalogue; 80 items fell into the restricted category, a decrease of 7 items from the previous Catalogue; and 39 items were classified as the prohibited category, 1 item less than in the previous Catalogue. At the same time, the new Catalogue also cancelled equity restrictions in some fields. As a result, equity requirements for 11 items in the encouraged and restricted categories disappeared after the amendment.

94. In the course of amending the Catalogue, attention was particularly given to its consistency with the commitments made by China in the WTO. For sectors and industries that China had committed to open up in the WTO, no new access restriction was imposed in the amended Catalogue. On top of that, the amended Catalogue also realized autonomous opening-up in certain areas.

95. In addition to the above, in August 2010, the Interim Measures for Supervision and Administration of the Pilot Operation of Outbound Tourism Business by Sino-foreign Joint Venture Travel Agencies was promulgated. Since then, outbound tourism service for residents in mainland China has been open to foreign-funded travel agencies on a trial basis. In the financial services sector, investment in China's interbank RMB bond market by overseas commercial banks and central banks has been steadily advanced, and detailed rules are being drafted on the opening-up of the compulsory third party auto liability insurance to foreign-funded non-life insurance companies.

(iii) Improving further the licensing regime for foreign investment

96. In June 2010, the Chinese Government delegated to the governments at provincial level the authority to examine and approve certain foreign investment projects including those in the encouraged and permitted categories with the total investment amounting up to US\$300 million. In July 2010, the Chinese Government cancelled or reformed a series of other approval procedures concerning foreign investment, including for example those for foreign-invested enterprises to establish branches within China. These efforts further improved the level of facilitation for foreign investment.

97. In 2011, the Chinese Government established the security review mechanism for mergers and acquisitions of domestic enterprises by foreign investors in line with international common practices. The specific implementation rule was promulgated based on extensive solicitation of public opinions. The administrative system on mergers and acquisitions by foreign investors in China was further improved.

(iv) Caring for and protecting rights and interests of investors

98. The Chinese Government has always attached great importance to communications with investors to listen to their views and opinions on investment environment. Since the last review, the Chinese Government has worked on a series of issues that were of interest to investors. With respect to the issue of fair competition between domestic and foreign-funded enterprises in the national innovation initiative, the Chinese Government has made it clear that in recognizing and accrediting innovation products foreign-funded enterprises and their products would be treated equally as domestic enterprises and their products. With respect to the issue of compulsory transfer of technology, the Chinese Government has confirmed that laws and regulations stipulating compulsory transfer of technology had been amended at the time of China's WTO accession with all such stipulations annulled. Technical cooperation and technology transfer are now behaviors of enterprises out of their own will, and the Chinese Government will not take them as precondition for market access. In terms of IPRs protection, the Chinese Government has responded with the nationwide special campaign of cracking down on infringements of IPRs to effectively rectify market order and protect the rights and interests of investors.

(4) CONSTRUCTING ECONOMIC AND TRADE PARTNERSHIPS BASED ON MUTUALLY BENEFICIAL AND WIN-WIN PRINCIPLE

99. China has been committed to developing all-round foreign economic and trade relations. China is willing to carry out practical cooperation with all countries and regions, large or small, rich or poor, to draw on each other's merits for complementation, to bring into play each other's respective advantages in a bid to achieve mutual benefits and win-win results.

100. China believes that economic and trading partners should keep on enhancing mutual understanding, especially understanding on each other's national conditions, development needs and development objectives. With respect to frictions and disputes, China has always preferred dialogue to confrontation and cooperation to pressure, and chooses to have them settled through consultations and negotiations by giving full consideration to the interests of all parties and in the spirit of seeking common ground while shelving differences. When consultations fail to settle a dispute, China, as a WTO Member, will seek to handle the issue appropriately with its trading partners through the WTO dispute settlement mechanism.

101. China opposes protectionism in all forms, objects to politicizing trade and investment issues, and stands against sticking to old mentality, exercising discriminatory practices in investment and trade remedy and unilaterally imposing unreasonable restrictions.

(i) Committed to advancing the Doha Development Agenda

102. China is deeply concerned on the impasse of the Doha Development Agenda (DDA) negotiation despite the full engagement by the WTO Members in advancing the negotiation since 2009. China firmly believes that in the context of serious uncertainties faced by the world economy, the early conclusion of the DDA will bring more trade, investment and employment opportunities, foster a more stable and open trade environment, further enhance the role played by the multilateral trading system in global governance and promote the recovery and steady growth of the world economy.

103. The Chinese Government attaches high importance to the DDA negotiation. When the negotiation is confronted with severe difficulties, Chinese leaders call on all parties to show political will and make concerted efforts to promote the early conclusion of the DDA with a comprehensive and balanced outcome on various occasions including the Group of Twenty (G20) Summit, Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting, the BRICS Summit as well as bilateral high-level visits. It is also reiterated in the 2012 Report on the Work of the Chinese Government to the National People's Congress that China will continue to play a constructive role in the DDA negotiation.

104. China has always been an active participant in the DDA negotiation, playing a constructive role in the negotiation through WTO ministerial conferences, informal ministerial meetings and various consultations at senior official level. China, together with other members, made great efforts in leveraging the so-called "2011 window opportunity" to achieve an "early harvest" of the DDA. Thanks to concerted efforts of all parties, seven consensuses were reached for the DDA at the Eighth WTO Ministerial Conference in December 2011, safeguarding the DDA development mandate and the progress already achieved.

105. China remains committed to the realization of the development goal of the DDA. China will join efforts with other Members, in accordance with the Doha mandate and based on the progress already made, to explore feasible approaches to fulfil the consensuses of the Eighth WTO Ministerial Conference by advancing first the negotiations in areas that are politically less controversial and technically more mature such as the concerns of LDCs. At the meantime, the resolution of outstanding issues shall be expedited to conclude the DDA single undertaking and realize the development goal. China is open to new approaches that will help advance the negotiation, but insists that any such approach shall take development as the core, single undertaking as the goal and multilateralism as the main channel. It is hard to believe that developing members will have the will and confidence to address new issues before the successful conclusion of the DDA.

106. On agriculture, China is of the view that the pressure faced by developed members and developing members are fundamentally different. China's agriculture tariff has already been reduced to a very low level. China has no agricultural export subsidies and only provides a very limited amount of domestic support at *de minimis* level. China upholds the position to substantially reduce trade-distorting domestic support by developed members, substantially reduce the relatively high tariffs and tariff escalation, and provide sufficient and effective special and differential treatment to developing members so as to address their concerns on food security, livelihood of rural population and rural development.

107. With respect to NAMA, China believes that the negotiations modalities contained in the Chairman's draft modalities paper dated December 2008 could achieve the goal and fulfil the ambitious level of NAMA. China supports to resume the negotiations on such basis. Negotiations on sectorals should be carried out on a voluntary basis and in accordance with the mandate contained in the Hong Kong Ministerial Declaration and should focus on the products of export interests to developing countries.

108. Rules negotiation is an important element of the DDA. It should contribute to further clarifying and improving the WTO rules, tightening disciplines on investigation in trade remedy, increasing transparency, and preventing and reducing the abuse of trade remedy measures, especially the abuse by developed members against developing ones.

109. China welcomes any exploration that contributes to advancing multilateral negotiation on trade in services in line with the principle of transparency and inclusiveness. China pays high attention to the possible systemic impacts on the DDA by plurilateral service negotiation initiative pursued by some Members. China is ready to advance the negotiations on trade in services through multilateral approach and is willing to make concerted efforts with other Members.

110. China attaches great importance to the solution of LDC concerns, including on "duty-free quota-free" treatment and the cotton issue, and regards it a key step forward in realizing the Doha development goal. China supports giving priority to making progress in areas like trade facilitation to advance the process of global trade liberalization.

(ii) Safeguarding the multilateral trading system with concrete actions

111. The year 2011 marks the 10th anniversary of China's WTO accession. Over the past 10 years, China has fully honoured its extensive commitments of WTO accession and made important contributions to safeguarding the multilateral trading system. China's average tariff rate was reduced from 15.3% to 9.8%, which was already lower than the average level of developing members. China eliminated all non-tariff barriers inconsistent with the WTO rules, fully liberalized trading rights, and substantially improved investment and market access in agriculture, manufacturing and service sector. China also made enormous efforts in sorting out and amending laws and regulations, and the stability, transparency and predictability of China's trade regime and policies have been greatly improved.

112. China has earnestly and actively participated in the functioning of the WTO and respected the decisions of the Dispute Settlement Body concerning the trade disputes between China and its trading partners. Since the outbreak of the international financial crisis, China has supported the WTO in launching the monitoring and surveillance of trade measures and playing a crucial role in curbing protectionism.

113. In the course of developing and implementing economic and trade policies and measures, China has attached great importance to their consistency with the rules and its obligations in the multilateral trading system. China has endeavored to make reference to practices of other WTO Members and take into account possible impacts on the external world.

114. China has actively responded to the Aid for Trade initiative of the WTO. China continues to provide assistances bilaterally to the best of its ability to other developing countries and upraise the level of South-South cooperation. Meanwhile, in the multilateral framework of WTO, China contributed a total of US\$600,000 to the Aid for Trade initiative in three consecutive years since 2008. In 2011, China contributed another US\$400,000 and established "China's LDCs and Accessions Program" (China program) to help LDCs effectively participate in and benefit from the

multilateral trading system and to support those LDCs applying for WTO membership to accelerate the accession process. With the support of the program, the WTO Secretariat will hold a LDCs round-table on WTO accession in Beijing from 29 May to 1 June 2012. During the Eighth WTO Ministerial Conference, China and major cotton producing countries in Africa initiated their cotton cooperation within the WTO framework, and China would provide superior seeds, chemical fertilizers, agricultural machinery, technologies and training of professionals to these cotton producing countries.

115. China has always been working with sustained efforts on its accession to the Agreement on Government Procurement (GPA). In November 2011, China submitted to the WTO its second revised offer covering certain sub-central entities and conducted in-depth consultations with GPA parties, which substantially moved forward the negotiations. China will continue its efforts to accede to the GPA at an early date.

(iii) Promoting regional and bilateral cooperation

116. While committing to the multilateral trade system and its rules as the cornerstone of its foreign economic and trade relations, China has also attached importance to promoting bilateral and regional economic and trade cooperation. Currently over 150 countries and regions have signed agreements on bilateral trade or economic cooperation with China. China has witnessed steady growth in its trade with developed countries and realized complementary advantages as well as reciprocity and mutual benefit. China's trade with developing countries including the emerging markets is experiencing robust growth, and there are huge development potentials to be further explored.

117. With respect to regional economic integration, as of the end of 2011, China had held 15 negotiations on either free trade agreement, or closer economic partnership arrangement, or economic cooperation framework agreement with 28 countries and regions, with 10 of them signed and/or implemented. Currently 5 negotiations are still under way.

118. China is also an active participant in the Asia-Pacific Economic Cooperation, the Association of Southeast Asian Nations (ASEAN) meetings with China, Japan and the Republic of Korea, the East Asia Summit, Forum on China-Africa Cooperation, Greater Mekong Sub-region Economic Cooperation Committee, Central Asia Regional Economic Cooperation Committee, Greater Tumen Initiative, and other regional and sub-regional economic cooperation mechanisms.

(iv) Enhancing South-South cooperation

119. China is a developing country and shares the common desire of developing countries to realize people's right to development. Therefore, China has always committed to expanding the South-South cooperation, including providing assistance to the best of its ability to other developing countries to help recipient countries consolidate their self-developing capacity, enrich and improve people's livelihood, and promote economic growth and social progress.

120. China is one of the developing countries granting the biggest market access to LDCs. As of the end of 2011, China had granted zero-tariff to over 4,700 products at HS 8-digit level from 41 LDCs which had established diplomatic ties with China, which accounted for about 60% of China's total HS 8-digit tariff items. In November 2011, President Hu Jintao announced at the G20 Summit in Cannes, France that China will, in the context of South-South cooperation, give zero-tariff treatment to 97% of the tariff items of exports to China from the LDCs having diplomatic ties with China.

121. Implementation of the zero-tariff arrangements has greatly boosted the exports of LDCs to China. Since 2008, China has been the largest export market for LDCs. According to WTO statistics, in 2010, China's import of goods from LDCs increased by 58% over the previous year, accounting for approximately one quarter of the total exports of LDCs.

122. In September 2010, Premier Wen Jiabao in attending the UN High-Level Meeting on the Millennium Development Goals (MDGs), proposed a series of specific measures to be adopted by the Chinese Government to unconditionally help fellow developing countries promote economic and social development. These include to further cancel all the unpaid interest-free government loans that were due in 2010 owed to China by 50 heavily indebted poor countries and LDCs, to dispatch another 3,000 agricultural experts and technicians to these countries, to train 80,000 more professionals in various fields for other developing countries and to continue the provision of aid funds to other developing countries for development projects including infrastructure construction. These measures will surely play a very positive role in improving the trade and development capacity of LDCs and deepening South-South cooperation.

(5) CONTRIBUTION OF THE TRADE DEVELOPMENT OF CHINA TO THE WORLD ECONOMY

123. The development of China's foreign trade has accelerated the modernization of the national economy, and improved the standard of living of more than 1.3 billion Chinese people. It has also helped integrate the Chinese economy into the world economy, and promoted the common prosperity of all countries and regions in the world.

(i) Promoting the growth of the world economy

124. China's reform and opening up and its active participation in economic globalization have made the country one of the world's fastest-growing economies. Over the past 10 years since its accession to the WTO, China, along with other developing countries, has become an increasingly important force propelling world economic growth. According to the International Monetary Fund statistics, from 2001 to 2011, China's GDP increased by US\$5.97 trillion, representing 15.9% of the increase in the world aggregate, and the share of China's GDP in the world rose to 10.5% over the same period. Data from the WTO shows that from 2005 to 2011, the average annual growth rates of China's exports and imports were 16% and 18% respectively, much higher than the 10% and 9% annual growth rates of global export and import in the same period.

(ii) Improving the welfare of the people in all countries

125. In the course of the economic globalization, China has gradually developed into a major producer and exporter of industrial products relying on its labor cost advantage, relatively strong industrial supporting, processing and manufacturing capabilities, and constantly-increasing labor productivity. It provides inexpensive and quality commodities to meet the diverse demands of the international market. China's advantage due to economies of scale and low processing costs in the global manufacturing industry partially offsets the rising prices of upstream factors of production, playing an important role in curbing global inflation and raising the real purchasing power of consumers of its trading partners.

(iii) Providing broad market for trading partners

126. While China became the world's largest exporter, it also became the world's second-largest importer. Since 2001, China's import of goods has increased by approximately five times, representing an annual growth rate of around 20%. In the next five years, China will import at least

US\$8 trillion worth of commodities. China has become the largest and the most important export destination of many WTO Members. As China's industrialization and urbanization are moving forward rapidly, and its domestic demand keeps growing, China will soon become one of the world's largest consumption market, and offer increasing opportunities to its trading partners.

IV. THE WAY FORWARD

127. Over the last 30 years after reform and opening up, China has maintained rapid GDP growth, expanded constantly the size of the economy and improved significantly people's standard of living. Despite of the remarkable achievements in the course of development, in 2010 China's per capita GDP still ranked around 100th among all countries and regions in the world. China's modernization process is a modernization process for one fifth of the world's population. The scale and magnitude of the difficulties and problems involved are unprecedented in the present world. China will remain for a long time a developing country facing numerous and heavy development tasks, and therefore will continue to adhere to handling its own matters well. This in itself is the most important fulfilment of China's international responsibility and also the most important contribution to human development.

128. Under the current circumstances, guided by the principle of making progress while maintaining balance and stability, the Chinese Government needs to keep handling well the relationships among maintaining steady and robust economic growth, restructuring the economy and managing inflation expectations. China not only needs to realize steady and rapid economic development, prevent the occurrence of major fluctuations and maintain the overall price level stable, but also needs to make real progress in accelerating the transformation of the economic development pattern so as to lay a solid foundation for long-term and sound development of the economy. Accelerating the transformation of the economic development pattern is both a long-term task and a pressing issue at present.

129. In the medium and long run, the Chinese Government is confident in maintaining steady and robust growth of the economy. After 30 years of reform and opening up, China has in place solid material foundation and institutional conditions for future development. Enterprises are used to the market economy environment and rules and have their competitiveness significantly strengthened. Infrastructures are greatly improved. Human resources are rich. The workforce is more skilled. China also has ample supply of capital, a sound financial system and excellent fiscal position.

130. More importantly, with the more than 1.3 billion population, China has a huge market and its development potential will be constantly unleashed. The fundamental impetus for economic growth will not diminish in a fairly long period of time. In the historical course of constantly improving the livelihood and well-being of more than 1.3 billion Chinese people and realizing the development goal of building a moderately prosperous society set by the Chinese Government, there will be a steady flow of effective demands to support China's strong and sustainable economic growth.

131. Accelerating the transformation of the economic development pattern needs to rely on furthering the reform. The Chinese Government will be more resolute and courageous in advancing the reform in all fields in an all-round way. China not only needs to vigorously press ahead with reform of economic system, but also needs to prudently advance political reform and accelerate reform of the cultural and social management systems in order to eradicate deep-seated institutional barriers hindering the development of productivity and improve constantly the socialist market economy.

132. Accelerating the transformation of the economic development pattern also needs to rely on furthering the opening-up to the outside world. The Chinese Government will implement a more proactive opening up strategy, expand and deepen common interests with all parties concerned. The Chinese Government will participate actively in global economic governance and regional economic cooperation, oppose protectionism in all forms, and promote the development of a "balanced, inclusive and mutually beneficial" multilateral trading system. The Chinese Government will work with its trading partners to address the various challenges facing the world economy and trade, to sustain a more balanced development of global trade and better realize the goal of mutually-beneficial and win-win development.
